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evidence from the Libyan banking sector

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FINANCIAL DISCLOSURE PRACTICES IN DEVELOPING COUNTRIES: EVIDENCE FROM THE LIBYAN BANKING SECTOR

MUSA M.J. KRIBAT

ATHESIS SUBMITTED TO THE UNIVERSITY OF DUNDEE IN FULFILMENT OF THE REQUIREMENTS FOR THE AWARD OF THE DEGREE OF DOCTOR OF PHILOSOPHY

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Financial Disclosure Practices in Developing Countries: Evidence from the Libyan Banking Sector

Musa M.J. Kribat

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To My Parents as well as My Family

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Declaration

I hereby declare that I am the author of this thesis, that the work of which this thesis is a record has been done by myself, and that is has not previously been accepted for a higher degree.

Signed ....   Date 7/10/2009

Musa M.J. Kribat

Certificate

We certify that Musa M.J. Kribat has worked the equivalent of nine terms on this research, and that the conditions of the relevant ordinance and regulation have been fulfilled.

Signed ....   Date 7/10/2009

Dr. Bruce Burton

Signed ....   Date 7/10/09

Dr. Louise Crawford

Abstract

The main aim of this study is to assess both: (i) perceptions regarding: and (ii) the nature of financial disclosure practices in Libyan banks' annual reports. As regards the former, the focus was placed on both preparers and users of the documents. In terms of the latter, the level of disclosure is examined and its relationship with certain firm-specific characteristics (such as: bank size; age of bank; profitability; and ownership structure) and the overall level of Libyan banks' financial disclosure analysed. A decision-usefulness framework underpinned the research, which was carried out via a questionnaire survey and a disclosure index analysis.

The findings suggest that preparers considered management and the board of directors to be the most important users of Libyan banks' annual reports and the most influential in terms of disclosure practices and accounting policies choice. The evidence also illustrates that, from the users' perspective, the annual reports of Libyan banks are frequently employed, and are the most important source of information for decision-making process. The main purpose of these documents is perceived by both preparer and user groups as being the provision of information to assist the Central Bank of Libya (CBL) in its monitoring and supervision activities. The perceptions of preparers were consistent with those of users regarding the quality of financial disclosures in Libyan banks' annual reports, but views differed in terms of the quantity of the information and the degree of compliance with mandatory disclosure requirements; in the latter cases, preparer groups were more satisfied than users. However, both groups are pinning strong hopes on the newly-formed Libyan Stock Market's role and on-going economic reforms -to play a key role in improving disclosure practices.

Finally, Libyan banks failed to comply fully with mandatory disclosure requirements in any of the sample years (2000-2006); on average the level of compliance was 89% (with a range of 74% to 97%). In terms of overall levels (i.e. mandatory plus voluntary) of financial disclosure in Libyan banks' annual reports, the figures were low; only 54% of information items were disclosed on average by sample banks (with a range of 39% to 67%). Multivariate panel regression analysis showed that both profit and age appear to have a positive impact on the overall financial disclosure level, whereas size has a negative influence. However, the first of these effects proved to be statistically significant. The findings are shown to be of interest to regulators, users and providers of financial information in the Libyan banking sector.

Chapter One
Introduction

1.1 Introduction

Disclosure is "the communication of economic information, whether financial or non-financial, quantitative or qualitative relating to an enterprise's financial position and performance" (Owusu-Ansah, 1998, p. 608). There are many avenues in addition to the annual report that can be used by entities to disclose financial information (e.g., prospectus, interim report, press coverage, journals, newspapers, government publications, interviews with officials, seminars), but the annual report is the only document produced regularly to comply with mandatory requirements and -more importantly- is central to the organisation's construction of its own external image (Gray et al., 1995). Thus, annual reports are perceived as a very important medium for communication of corporate information (Lee and Tweedie, 1975). This study considers the financial information disclosed in Libyan banks' annual reports.

Annual reports consist of an extensive range of qualitative and quantitative information items that can assist a variety of user groups in making their economic decisions. Notwithstanding accountability and stewardship notions, one of the main purposes of disclosures in annual reports is to help the users of accounting information make predictions about future performance that in turn helps them to make their economic and financial decisions. An annual report is considered sufficient and meaningful if all relevant information has been reported and disclosed. Therefore, a specification of users' needs and demands for accounting information is essential to identify the extent to which general objective information items satisfy the different needs of diverse user-groups (Mirshekary and Saudagaran, 2005). Thus, it is generally accepted that annual reports are prepared mainly for external user groups and that such documents should be designed, in shape and content, in line with the needs and requirements of external users (Pijper, 1993). As a result, user groups could be contacted regularly to assess their perceptions and views about various aspects of the reporting practices of firms since their views will provide the main feedback to improve and update the corporate communication process (Epstein and Pava, 1993).

The importance of financial sectors for macro-economic fast development has been argued for and supported in the literature for many years. For example, a study by King and Levine (1992) from across 119 developed and developing countries over the 1960-1989 period provides strong evidence that economic growth is critically dependent on financial sector size, private bank functioning, credit provision to private enterprises and interest rates. The authors state that the larger the financial sector in the context of the overall economy, the greater the share of lending by depository rather than central banks, and the greater the share of credit to the private rather than public sector, the greater is the rate of economic growth.

The recent global credit crisis has provided dramatic evidence that weaknesses in banking systems lead very quickly to deterioration in the real economy, providing obvious recent support for King and Levine's arguments. Moreover, the banking industry also plays a key role in maintaining confidence in the financial system of a nation. Thus, there is extensive and widespread interest in the well-being of banks, with user groups needing relevant, reliable, understandable, material and comparable information that assists them in evaluating the financial position and performance of the banks for making decisions. Since the 1960s there has been an increased level of academic interest in accounting disclosure studies. The level of disclosure of financial information in corporate annual reports and their determinants has attracted extensive attention in developed countries (i.g. Cerf 1961; Singhvi, 1967; Singhvi and Desai, 1971; Choi 1973; Buzby, 1972 & 1975; Stanga, 1976; Belkoui and Kahi, 1978; Firth, 1979; McNally, et al. 1982; Cooke 1989 & 1992; Malone, 1993; Giner, 1997; Hooks et al., 2002), but there has been much less focus on developing countries. Only a few studies have been conducted in these nations on both the nature of disclosures and their determinants (Karim and Ahmed 2005). In this context, Akhtaruddin (2005) argues that many studies have recently been carried out to enrich our understanding of the determinants affecting disclosure practices in developed nations whereas a little is known about this phenomenon in developing countries.

The literature offers a number of different avenues through which financial disclosure practices within annual reports in a country can be assessed. One way is to solicit the perceptions of the external users of corporate annual reports (e.g. Lee and Tweedie, 1975; Abu-Nassar and Rutherford, 1996; Nasser et al., 2003; Al-Razeen and Karbhari, 2004; Mirshekary and Saudagaran, 2005), while a second is to measure the extent of the information released using a disclosure index (e.g., Cerf, 1961; Firth, 1979; Al-Bastaki, 1997; Owsus-Ansah, 1998; Al-Shayeb, 2003; Barako, 2007; Hossain, 2008). As these two methods complement each other, the present research applies both methods in addition to exploring the perceptions of annual reports' preparers about a variety of issues regarding financial reporting and disclosure practices; in so doing it is intended to provide a rich description of the status of financial disclosure practices within Libyan banks' annual reports.

The remainder of this chapter will highlight the research justification, objectives and methods. This chapter also outlines the significance of the study and summarises the structure of the thesis.

1.2 Justification of the Research Project

In addition to the need for evidence on disclosure practices in the global banking sector, the focus on Libya is particularly timely, as the nation is undergoing a series of major economic and market reforms including liberalisation, privatisation and stock market development programmes. The underlying aim of these reforms is to enhance economic performance and efficiency and create an attractive investment climate that encourages both domestic and foreign investment. Previously, the Libyan government had less reason to be concerned about disclosure practices since it was both owner and management, and could in practice demand whatever information it needed; with privatisation, the owners -the shareholders- are not involved in management, yet are clearly likely to be enthusiastic to know about management's performance and the entity's results in a reliable way.

The privatisation programmes in developing nations are intended to be attractive to the investing public via appropriate disclosure practices and clear transparency emerging regarding the performance of the firms concerned (Al-Razeen and Karbhari, 2004). In addition, the success of the intended privatisation programme in attracting private investment will depend, among other things, on the usefulness and reliability of corporate information made available to the public. Therefore, studies that identify the needs and demands of the users will potentially help both regulatory authorities and the preparers of annual reports to improve disclosure in meaningful ways (Al-Razeen and Karbhari, 2004).

Whilst there are many studies that examine disclosure practices among non-financial companies, there are only a limited number that focus on the financial disclosure practices in financial companies such as banks. It is commonly accepted that the disclosure practices of banks have not yet reached the same level of adequacy as non-financial corporations (Kahl and Belkaoui, 1981; Hossain 2000; Alhajraf, 2002). Similarly, in terms of determinants of disclosure level; Spiegel and Yamori (2004, p. 21) state that "Disclosure is widely regarded as a necessary condition for market discipline in a modern financial sector. However, the determinants of disclosure decision are still unknown, particularly among banks. To formulate optimal disclosure policy, it is necessary to know what factors affect disclosure decision of banks".

With regard to the perceptions of users and preparers of annual reports, Mirshekary and Saudagaran (2005) indicate that the literature about the perceptions and attitudes of financial reports users concentrates largely on developed countries. Relatively few studies have been conducted into the perceptions and attitudes of user-groups of corporate annual reports in developing countries (exceptions include Wallace, 1988; Solas and Ibrahim, 1992; Naser et al., 2003). The literature on the attitudes and perceptions of preparers of annual reports is also sparse and to date has again focused largely on developed countries (for example, Chandra, 1974; Chandra and Greenball, 1977). While the literature on users' perceptions of annual reports in emerging economics has developed over the last twenty or so years, the literature on preparers' perceptions in such nations has only grown to its current -limited- extent (e.g. Abu-Nassar and Rutherford, 1995; Ho and Wong, 2003; Yaftian and Mirshekary, 2005). It is hoped that this study will fill the gap in the accounting literature about financial reporting in developing countries in general -and northern Africa in particular- by providing a direct comparison of the perceptions of users and preparers in a modern setting, and along with evidence of actual disclosure practices.

1.3 Objectives of the Research

The main aim of this study is to assess nature of, and perceptions relating to, financial disclosure practices within Libyan banks' annual reports. To achieve this broad aim, the following more specific objectives were developed:

1. To study and explore the perceptions and attitudes of preparers of accounts about Libyan banks' financial disclosure practices.
2. To evaluate and examine the views and perceptions of users of accounting information about the content and usefulness of Libyan banks' annual reports.
3. To investigate the degree of Libyan banks' compliance with mandatory disclosure requirements.
4. To examine the extent of overall (mandatory and voluntary) financial disclosure in Libyan banks' annual reports.

5. To evaluate the possible relationship between firm-specific characteristics (such as: bank size; age of bank; profitability: and the ownership structure of the bank) and the overall level of Libyan banks' financial disclosure.

1.4 Research Methodology and Methods

The current study is undertaken using a functionalist research paradigm where a realist ontology is assumed, positivistic epistemology is employed, a deterministic view of nature is adopted and a nomothetic methodology is used. Since the functionalist paradigm is associated with empirical or quantitative research, the researcher adopted quantitative approach to collect and analyse data. Two main research methods were employed, namely a questionnaire survey and a disclosure index analysis.

First, a questionnaire survey is used to examine the opinions of preparers and users of annual reports in order to evaluate and investigate perceptions of Libyan banks' financial disclosure practices and the usefulness of their annual reports. The user groups who are targeted by the questionnaire survey are: individual investors and institutional investors; external auditors; tax officers; Central Bank officers; bank loan and investment officers; and academics, while the target preparer groups are: general managers; deputy general managers; managers of accounting departments; and accountants.

Second, a disclosure index is used to examine data from Libyan banks' annual reports in order to investigate both the degree of compliance with mandatory disclosure requirements, and to measure the extent of overall financial disclosure, as well as to examine possible association between a number of firm-specific characteristics and the level of overall financial disclosure. Two disclosure indices were constructed, namely a mandatory disclosure index and an overall financial disclosure index. The former is based on information requirements items that are required by Libyan authorities (via Commercial Law, Tax Law and Banking Law), while the latter is based on related studies conducted in both developed and developing countries (such as Kahl and Belkaoui, 1981; Al-Bastaki, 1997; Alhajraf, 2002; Al-Shayeb, 2003; Abulkarim, 2005).

1.5 Significance of the Research

A broad consensus exists concerning the active role played by the financial sector in promoting economic development in particular the importance of efficient running of the banking system (Galbis, 1977), and in this context the study makes several contributions. By investigating the perceptions of users regarding the content and usefulness of Libyan banks' annual reports, this study will be of potential importance to regulators and preparers of the documents and may assist in the improvement of communication between the bankers and the reports' users. In addition, the timeliness of this study, in terms of both recent global turbulence and Libyan economic/political changes, and attempts to harmonise international accounting regulations, enhances its Likely importance to Libyan accounting standard-setting bodies and other relevant law makers, in evaluating the preparers' perceptions of current financial disclosure practices.

In this change-based context, the results may also assist Libyan policymakers as they develop market mechanisms in both the real and financial sectors, in which reliable information about asset values is a key input. Moreover, the study will provide feedback from the banks' annual reports' users to Libyan banks, the Central Bank of Libya and the appropriate regulatory authorities, as well as generating empirical evidence relating to the value of annual reports that will clearly be of concern to preparers of Libyan banks' annual reports.

This study also has a special importance because it is, to the best of this researcher's knowledge, the first specific investigation of the financial disclosure practices of Libyan banks. No attempt has been made to date to evaluate the perceptions and opinions of accounting information users about the content and usefulness of Libyan banks' annual reports. Further, no attempt has been made to compare the attitudes and perceptions of the preparers of annual reports about Libyan banks' financial disclosure practices to those of various user groups. More generally, this study will also provide a rich description of the present status of financial disclosure not just in Libya, but by expanding the limited literature on financial accounting in the North African region as a whole.

The importance of empirically testing the impact of firm-specific characteristics on the extent of financial disclosure may suggest areas where efforts to improve disclosure regulation in Libya should be concentrated. In other words, the research will shed light on how annual reports' preparers and regulatory authorities can improve current financial disclosure practices as well as providing information regarding some of the key influences on financial accounting in Libya. Users and regulators alike may benefit from the identification of any systematic differences between banks in their level of disclosure. Finally, the study will also offer both local and foreign investors an objective assessment of the current reporting practices in Libyan banks; such information is clearly of importance to all investors who want to make financial decisions before investing in such an institution. This need is only likely to have been heightened by recent events in international credit markets. Such investment is, however, critical to the success of recent Libyan reforms.

1.6 Structure of the Research

The next chapter of the thesis provides background information about the economic and political environment in Libya, as well as a general description of the nation's accounting profession, legal requirements, and education system. This chapter also presents a brief historical abstract regarding the development of the banking industry in Libya as well as discussing the establishment of the Libyan Stock Market (LSM) and the new listed corporations that have emerged so far.

Chapter 3 describes the relevant literature, focusing on disclosure, the benefits of disclosure, the internal and external factors affecting disclosure, the objectives of financial statements and the characteristics of financial information. This chapter reviews prior evidence about disclosure practices and the views of preparers and users. The review covers previous studies that examine financial disclosure and compliance with mandatory requirements, as well as studies that investigate the perceptions of preparers and users about financial disclosure practices; studies conducted in both developed and developing countries are discussed.

Chapter 4 discusses the theoretical framework underpinning the study. The two main approaches that dominate accounting disclosure research, namely decision usefulness and accountability approach, are detailed and analysed. The chapter investigates the limitations of both approaches, before setting out the reasons for employing decision-usefulness as the theoretical framework for the current study. Chapter 5 then describes the related issues of research philosophy, methodology and methods, including discussion of the hypotheses underpinning the study, the research instruments used to collect the data, and the construction of the disclosure indices.

Chapters 6, 7 and 8 present and discuss the empirical findings. Chapter 6 documents the analysis and results of the questionnaire survey of preparers' perceptions, while Chapter 7 investigates the perceptions of users of Libyan banks' annual reports. Chapter 8 then measures the level of financial disclosure in Libyan banks' annual reports -and the degree of compliance with mandatory disclosure requirements- on the basis of a quantitative disclosure index-based investigation. This chapter also examines the relationship between firm-specific characteristics and the extent of financial disclosure. Chapter 9 then summarises the key findings of the current study, outlining the main limitations of the study, and suggesting avenues for future research.

Having outlined the justification for the research study, the research objectives, methodology and methods, the importance of the research and the structure of the thesis, the next chapter provides a general overview about the Libyan economic, political, accounting environment as well as the nation's banking sector.

Chapter Two

Economical and Regulatory Environment in Libya

2.1 Introduction

The banking industry in both developed and developing countries plays a crucial role in enhancing economic and financial stability; the recent credit crunch has brought this into even sharper focus, in illustrating both the importance (and vulnerability) of the sector to global economic conditions and prospects. The purpose of this chapter is to describe the historical and current state of the Libyan economy, its accounting profession and its banking industry. In addition, the chapter identifies statutory and mandatory disclosure requirements prescribed for Libyan companies in general and banks in particular. The chapter is divided into eight sections. The next section provides a brief review of the Libyan context in terms of location, population, history and political regime. It also provides a review of the Libyan macro-economy. The third section of the chapter focuses on the development of the banking industry in Libya. The recent establishment of the Libyan Stock Market (LSM) is discussed in section four, while section five focuses on the legal requirements for corporate financial reporting imposed by Libyan authorities. The sixth section of the chapter discusses the accounting profession in Libya, before section seven presents a brief review of levels of accounting education in Libya and the final section provides a summary.

2.2 Historical, Political and Economic Background

2.2.1 Geographical Location and Population

Libya is a developing Arab state situated in the north-central part of Africa and covering an area of 1,759,540 square kilometres –equal to nearly one-half the size of Europe or one-quarter the size of the United States (Bait El-Mal et al., 1973). The nation is bounded by Egypt to the east, Tunisia and Algeria to the west, the Mediterranean Sea (the length of coastline is nearly 2000 km) to the north, Sudan to the southeast and Chad and Niger to the south[1]. More than 90 per cent of Libya is desert and the remaining land is used for grazing (9%) and agriculture (1%) activities (United Nations, 1991).

The country's main religion is Islam, with about 97% of Libyan people being Sunni Muslim. Islam was declared as the state religion under the constitutional declaration of 1969, although, people continue to have the freedom to practice other faiths (Ansell and El-Arif, 1972). Arabic is the official language, with English and Italian languages also being used, but only in business. According to the latest population census in 2006, the population of Libya is 5.6 million, giving the country an overall population density of about 3 people per square kilometres.

2.2.2 Libyan History

Libya was under foreign occupation and administration for around 3000 years, until on 24 December 1951, the United Nations declared Libya to be an independent state. Libya has therefore been influenced by frequent and varied foreign conquerors, including the Phoenicians, the Greeks, the Romans, Arabs, Spain, the Ottoman Turkish Empire, and the Italians. Prior to the Arab conquest of North Africa in the 7th century,

[1] The total land boundaries are 4,345 km long.

Berbers were living in these areas (Libya, Tunisia, Algeria and Morocco). In 1530, Spain invaded Tripoli and occupied it until 1550. In 1551, the entire nation of Libya became a part of the Ottoman Turkish Empire and this situation continued for about 360 years. In 1911, Italy invaded Libya, with the occupation lasting until 1943. To achieve control of the country, the Italians divided Libya into three main administrative provinces, Cyrenaica in the east, Tripolitanin in the west and Fezzan in the south. After the Second World War, the Allies prevailed in North Africa (Kezeiri and Lawless, 1987). From 1944 to 1951, Libya was occupied by British and French military with the Cyrenaica and Tripolitanin provinces being administrated by British military and the Fezzan province run by the French.

2.2.3 Political Regime in Libya

As an independent nation, Libya first became a monarchy[2] and was governed by King Idris Al-Sanussi until September 1, 1969 when military and civilian officers seized authority and declared a Fatah Revolution. Military and civilian officers then established the Revolutionary Command Council (RCC) to rule the country; the RCC subsequently announced the establishment of the Libya Arab Republic. Further changes were initiated in 1977 when the RCC was replaced by the General People's Congress (GPC) (the highest legislative authority in Libya). When a new constitution was adopted in 1977 by the GPC, the official name of the country was changed to the

[2] The state was originally called the United Kingdom of Libya but later, in 1963, it was renamed as the Kingdom of Libya.

Socialist People's Libyan Arab Jamahiriya (SPLAJ)[3], established according to the Third Universal Theory of the Green Book[4] by Colonel Muammar Al-Qathafi.

2.2.4 The Libyan Economy

Prior to the discovery of oil in 1959, Libya was one of the poorest and most underdeveloped countries in the world; per capita revenue was estimated at no more than $40 per year (Higgins, 1968; Kilani, 1988). Most Libyans were engaged in agriculture, fisheries and animal husbandry (Higgins, 1968). Libya depended almost entirely on domestic income together along with foreign grants and aids for public expenditures funding (Kilani, 1988).

After the discovery of oil in 1959, the structure of the Libyan economy changed, particularly after 1961 when the nation started producing and exporting oil in significant amounts. The country transformed from being in deficit, dependent on foreign grants and aids, to a state of surplus, able to attract significant foreign investment. By 1968, Libya had become the second largest oil producer in the Arab World; per capita income increased from below $40 in 1951 to $1,250 in 1967 (Bait El-Mal et al., 1973) and to $10,985 in 1980. These increases reflected oil production increases.

At the beginning of 1970s, the Libyan government's economic philosophy changed from capitalism to socialism; Libyan companies and banks were nationalised and private and foreign investment started to disappear (Kilani, 1988). By the end of the

[3] In 1986, the official name of the country was re-changed to the Great Socialist People's Libyan Arab Jamahiriya (GSPLAJ).

[4] The Green Book was written by Colonel Muammar Al-Qathafi. It deals with social, economic and political problems and attempts to find solutions for them.

1970s, most of the Libyan economic system was controlled by the Libyan Government via State ownership. The Libyan economy suffered from several difficulties and problems at this time, that limited the pace of economic development. Central amongst these issues were sanctions imposed in 1992 by the United Nations (UN). The sanctions badly affected Libyan economic growth and most other economic indictors. GDP declined from $82.2 billion in 1980 to $34.5 billion in 1995.

These economic conditions prevailed until 1993 when Libyan authorities enacted Law No. 9 of 1993, which regulates the private sector. Law No. 9 has allowed the private sector to engage in banking, manufacturing, agriculture, professional service and other businesses as individual owners or in partnerships as well as the selling of public-owned firms to private firms and individuals. In 2000, Law No. 198 was enacted by the GPC, to establish the General Authority of Ownership (GAO). The GAO is responsible for selling stock in state-owned corporations (other than banks)[5], to the private sector as part of the privatisation programme[6]. More than 100 companies have been privatised since 2000. The economic reform process has continued and, in 1997, the GPC enacted Law No. 5 which aims to encourage and attract foreign investment to accelerate further economic development[7].

UN and US economic sanctions were lifted in 1999 and 2000 respectively, allowing Libya to return to the international community and attract foreign investment in oil and gas and other sectors. After the lifting of the UN sanctions, Libyan authorities began

[5] Banks are owned by the CBL (a representative of Government), which is responsible for privatising and selling shares in Libyan banks to the private sector.
[6] For more information about the GAO, visit http://www.tamleek.org.ly
[7] This Law was amended by Law No.7 in 2003 to simplify the foreign investment process.

working on building a more stable and secure economic environment to try and address imbalances in the economy and diversify the pattern of income (Central Bank of Libya, 2005). This policy shift resulted in Libya's GDP growing by 2% (from $34.5 billion in 1995 to $45.5 billion) in 2000. Post sanction-lifting growth has continued, with GDP reaching $54.5 billion in 2005. Table 2.1 illustrates Libyan GDP (and growth rates) in 2004, 2005 and 2006 across economic sectors, while Table 2.2 shows per capita GDP in 2003, 2004, 2005 and 2006.

Table 2.1: Libyan GDP (LD million)

Economic Activities	2004	2005	2006	Growth Rate 2004-2006
Agriculture, Forestry and Fishing	1439.3	1554.0	1554.5	8.0
Oil and Natural Gas Extraction	27227.9	38153.0	39937.5	46.7
Mining and Quarrying	431.2	520.0	495.5	14.9
Manufacturing Industries	761.1	799.0	799.1	5.0
Electricity, Gas And Water	334.4	379.0	379.3	13.4
Building and Constructions	1495.3	1803.0	1718.0	14.9
Trade, Restaurants And Hotels	2392.6	2892.0	2797.9	17.0
Transport, Storage and Communication	1663.6	2013.0	1947.5	17.1
Financing, Insurance and Business Services (except Housing)	478.9 5	579.0	560.1	17.0
House Ownership	591.6	614.0	614.1	3.8
Public Services (Education and Health care)	4286	4682.0	4682.4	9.2
Other Services	475.5	549.0	539.3	13.4
Total GDP	41576.8	54537.0	56025.2	34.7
-Oil and Natural Gas Extraction	*27227.9*	*38153.0*	*39937.5*	*46.7*
-Non-Oil economic activities	*14348.9*	*16384.8*	*16087.7*	*12.1*

Source: *Central Bank of Libya (2006)*
Note: *This table details Libyan GDP across economic activities in 2004, 2005 and 2006.*

Table 2.2: Per Capita GDP

Years	GDP (LD million)	Population (thousand)	Per Capita (LD)
2003	31731.6	5027	6312
2004	40307.0	5119	7854
2005	54537.6	6109	8927
2006	56025.2	6212	10749

Source: *Central Bank of Libya (2006).*
Note: *This table details Libyan GDP per capita in 2003, 2004, 2005 and 2006.*

2.3 The Banking Industry in Libya

The modern banking industry in Libya reflects a complex process of development over many decades. These issues are outlined in the following sections.

2.3.1 Historical Background

1850 to 1951

A Libyan banking industry first emerged in the second half of the nineteen century. At this time, the nation's main economic activity was agriculture, which needed a robust financial system that could serve further development sector. The first agriculture bank opened in 1868 in Benghazi city, with the second following in 1901 in Tripoli city (Central Bank of Libya, 2006). After a short period of time, the Ottoman Bank opened two branches in Libya, the first in 1906 in Tripoli and the second in Benghazi in 1911 (Central Bank of Libya, 2006). During this period of time, there was however no Libyan bank regulation or supervision systems and these firms were subject to supervision and regulation via their home country (El-Seadeg et al., 1996).

As a pioneer in occupying Libya, the Bank of Rome[8] opened a number of branches, first in Tripoli city, followed by Benghazi city in 1907 and Darnah city in 1912. Following the Italian occupation in 1911, a number of other Italian banks opened their branches, including: the Bank of Napoli (which opened its branch in Tripoli in 1913) followed by the Bank of Sicily and the Bank of Italia (Central Bank of Libya, 2006). This growth in the number of branches was intended to meet the needs of agricultural

[8] The Bank of Rome, beside its banking activities, worked as the central banks, issuing notes and coins to underpin its authority (El-Baiah, 1980); the prevailing currency at that time was therefore Italian Lira.

and tradable sectors for short-time loans (Central Bank of Libya, 2006), the needs arising from increasing Italian immigration, and to facilitate the implementation of an economic plan devised by the Italian Government (El-Masri, 1984). During the period of Italian occupation (1911-1943), the monetary policy of Libya was part of overall Italian monetary strategy, and the supervision and regulation of Italian bank branches was Italian orientated (El-Seadeg et al., 1996).

During the British and French military administrations of 1943 to 1951, Barclays Bank opened two branches, one in Tripoli and one in Benghazi. At this time, these Italian Banks (Rome Bank, Napoli Bank and Sicily Bank) which had suspended their activities in Libya during the Second War resumed operations (Central Bank of Libya, 2006). At the same time, Barclays Bank, in addition its banking activities, developed the role of agent of the British Treasury, issuing Egyptian Pounds in the eastern region of Libya and British Military Currency (Sterling) in the western region (El-Baiah, 1980).

1952 to 1962

On 17 June 1953, the Tunisian-Algerian Real Estate Bank was licensed to work inside Libya while in October of the same year, the Egypt Bank and the British Bank for Middle East were given permission to exercise their activities in Libya. After a short time, two further banks were licensed, the F-America Bank and Morgan Guarantee Bank (Central Bank of Libya, 2006). At this time, there were still no Libyan banks in operation; Libyan authorities finally established the National Bank of Libya[9] via Law No. 30 in 1955. The NBL began operating in April 1956 in Tripoli and opened its

[9] The NBL became the Central Bank of Libya in 1955 (see section 2.3.3).

branch in Benghazi city in 1957. The main function of the NBL was that of central bank, issuing notes and coins in Libya (Central Bank of Libya, 2006).

1963 to 1992

Law No.4 was enacted in 1963 to organise and regulate the Libyan banking system. Foreign banks were required by the Law to locate their headquarters in Libya and to take the form of joint-stock companies with at least 51 per cent of the bank's capital being owned by the Libyan people (Central Bank of Libya, 2006)[10]. However, only three of eleven foreign banks reacted to the Law and became Libyan joint-stock companies; these were the Bank of Sicily (which was transferred to the Sahara Bank); the African Banking Company (which was established to replace the Tunisian-Algerian Real Estate Bank) and in 1966, the British Bank, which was replaced by the Northern Africa Bank. The Naboli Bank, Rome Bank and Barclays Bank did not respond to "libyanisation" policy; the NBL's scope was therefore limited and did not cover all banks operating in Libya at that time (Central Bank of Libya, 2006).

After the Al-fateh Revolution in September 1969 (see section 2.2.3), the RCC issued a resolution on 13 November 1969 regarding libyanisation of the remaining foreign bank branches operating in Libya. According to the RCC's resolution, branches of foreign banks would be transferred to joint-stock company status and their capital divided into 51 per cent for Libyans and 49% for foreigners[11]. However, foreign banks were widely seen as neglecting Libyan interests and, in December 1970, Libyan authorities enacted Law No. 153, nationalising the shares of all foreign banks (Central Bank of Libya,

[10] This process was known as the "libyanisation of foreign banks".
[11] (and the majority the board of directors must be Libyan).

2006). The new law also stipulated the division of existing commercial banks into five entities including the commercial division of the National Bank of Libya. Three of these banks became entirely state-owned commercial banks, namely the Al-Umma Bank, the National Commercial Bank and the Gumhouria Bank. The remaining two commercial banks were majority (> 80%) owned by the State[12], with the remaining shares in the banks of the private sector. These commercial banks are the Sahara Bank (government stake = 83%) and the Wahda Bank (87%)[13] (El-Masri, 1984).

Past-1993

The situation outlined above continued without change until 1993 when Libyan authorities enacted Law No.1 that permitted Libyans to establish private commercial banks. In 1996, the first private commercial bank was established, namely the Development and Commerce Bank. This was followed by several new commercial banks, including the Mediterranean Bank, the Alsaraya Trading and Development Bank and the Commercial Arab Bank (all in 1997), the Aman Commerce and Investment Bank and the Alejmaa Alarabi Bank (in 2003) and the Al-Wafa Bank (in 2004) and the United Bank for Trade and Investment (in 2007) (Central Bank of Libya, 2007). These banks are considered to be making a good contribution to banking services, funding economic activities and enhancing individuals' banking knowledge (Masoud and Al-Sharif, 2002). The details regarding Libyan banks existing at the time of writing are summarised below in Table 2.3.

[12] The Central Bank of Libya represented the State in ownership of these commercial banks.
[13] Sales of shares in these banks (Sahara Bank and Wahda Bank) to the private sector have continued to the present day (see Table 2.3 below).

Table 2.3: Libyan State-Owned and Private Commercial Banks as of 2008

S/N	Name of the bank	% of share owned by State	% of share owned by private sector	Year of formation
1	National Commercial Bank	100%	----	1970
2	Al-Umma Bank	100%	----	1970
3	Gumhouria Bank	100%	----	1969
4	Sahara Bank	47.92%	52.08%	1964
5	Wahda Bank	54%	46%	1970
6	Development and Commerce Bank	----	100%	1996
7	Aman Bank for Commerce and Investment	----	100%	2003
8	Alejmaa Alarabi Bank	----	100%	2003
9	Al-Wafa Bank	21.4%	78.6%	2004
10	Mediterranean Bank	----	100%	1997
11	Alsaraya Trading and Development Bank	----	100%	1997
12	Commercial Arab Bank	----	100%	1997
13	United Bank for Trade and Investment	----	100%	2007

Source: *The Central Bank of Libya (2007).*
Note: *This table lists all commercial banks existing in Libya in 2008.*

Nowadays, the banking sector in Libya plays an important role in the economy in terms of both contributions to GDP and providing employment for the nation's 6 million people (Central Bank of Libya, 2006). The next sub-section discusses the structure of Libyan commercial banks and how these facilitate the entities' aims.

2.3.2 Structure of the Libyan Commercial Banks

The Libyan commercial banks have played an important role in the Libyan macro-economy, providing financial support and facilities to individuals and organisations. According to the Banking Law No.1 of 2005, commercial banks are any company that ordinarily accepts deposits in current demand accounts or time deposits, grants loans and credit facilities, and engages in any of the other banking activities listed below:

1) The cashing of cheques made out to and by customers.
2) Services relating to documentary credits, documents for collection, and letters of credit.

3) Issuance and management of instruments of payment including monetary drawings, financial transfers, payment and credit cards, traveller's checks, etc.
4) Sale and purchase transactions involving monetary market instruments and capital market instruments to the credit of the bank or its customers.
5) The purchase and sale of debt, without or without the right of recourse.
6) Lease financing operations.
7) Foreign exchange transactions in spot and forward exchange markets.
8) The management, coverage, distribution, and transaction of banknote issues.
9) The provision of investment and other services for investment portfolios, and the provision of investment trustee services, including the management and investment of funds for a third party.
10) Management and safekeeping of securities and valuables.
11) Provision of trustee or financial investor services.
12) Any other banking activities approved by the Central Bank of Libya (Article, 65 of Banking Law No.1, 2005).

Commercial banks are subject to the supervision and control of the Central Bank of Libya (Article, 71 of Banking Law No.1, 2005). Commercial banks must assume the form of a Libyan joint-stock company with paid-up capital of at least LD10 million, divided into shares (Article, 67).

The following Tables 2.4 and 2.5 below illustrate the sources and uses of funds of state-owned and private banks respectively over the period 1980 to 2005.

Table 2.4: State-Owned Banks Sources and Usages of Funds (LD million)

Year	Capital and Reserves	Deposits	Loans and Facilities
1980	139.1	2285.5	1243.3
1985	208.8	3247.7	2033.0
1990	311.7	3321.4	3105.8
1995	411.9	5503.1	3206.9
2000	554.2	7175.4	5561.5
2001	718.5	8197.9	6025.7
2002	751.1	8371.2	6313.0
2003	778.9	9142.1	6723.9
2004	771.3	10668.3	6451.0
2005	978.3	13239.5	6109.1

***Source**: the Central Bank of Libya (2006).*
***Note:** This table details the capital/reserves, deposits and loans.facilities of Libyan state-owned banks from 1980-2005.*

Table 2.5: Private Banks Sources and Usages of Funds (LD million)

Year	Capital and Reserves	Deposits	Loans and Facilities
2000	9.9	258.7	22.5
2001	11.5	288.3	31.9
2002	13.6	336.6	44.8
2003	15.0	425.1	51.2
2004	35.5	610.4	59.3
2005	68.9	1024.2	57.5

Source: *the Central Bank of Libya (2006).*
Note: *This table details the capital/reserves, deposits and loans/facilities of Libyan private banks from 2000-2005.*

2.3.3 Central Bank of Libya

The Central Bank of Libya (CBL) was established as the National Bank of Libya by Law No. 30 of 1955. Law No.1 of 2005 decrees that the CBL operates under the auspices of the secretariat of the General People's Congress (GPC) and carries out its duties in pursuit of its objectives as stipulated in the Law within the framework of general government policy. In accordance with Article 5 of Law No 1, the duties and responsibilities of the CBL include:

1) Issuing the Libyan currency and maintaining its stability within Libya and abroad.
2) Managing the government's reserves of gold and foreign exchange.
3) Regulating monetary policy and supervising currency conversion transactions within Libya and abroad.
4) Regulating credit and banking policy and supervising its implementation within the framework of government policy.
5) Achieving the goals of economic policy in terms of stabilising the general level of prices and maintaining the soundness of the banking system.
6) Managing the liquidity of the national economy.
7) Regulating and supervising the foreign exchange market.
8) Providing advice to the government on matters related to general economic policy.

With regard to the supervision function, the CBL is required to supervise all the following entities: commercial banks; specialised banks whose objectives include financing and granting credit for specific activities; banks that operate abroad, but whose head office is in Libya; branches of foreign banks in Libya; the representative offices of foreign banks in Libya; and money changing and financial services companies (Article, 55).

2.4 The Libyan Stock Market

As an attempt to develop the strength of Libyan monetary and financial organisations and generally improve national economic condition, the GPC enacted Law No. 242 in 2003 to entrust the CBL with establishing a secondary securities market. The CBL therefore enacted Law No. 9 in 2004 setting up a Share Exchange Department, which was to be the responsibility of the CBL's Investment and Accounts Management arm. The Share Exchange Department then began setting the foundation for opening a Libyan Stock Exchange. In 2006, the GPC issued Law No. 134 which established the Libyan Stock Market (LSM). Since the establishment of the LSM, eight companies have listed (as of 30/06/2009); Table 2.6 provides details. The development of the LSM, and general market de-regulation, was on-going at the time that this thesis was being written, the importance of this changing context is referred to where relevant when the empirical analysis is detailed.

Table 2.6: Companies Listed in the Libyan Stock Market (LSM) as at the End of June 2009

S/N	Name of company	Type of Ownership	Capital	Year
1	Libyan Insurance Company	60% State-owned 40% Private	50,000,000	1964
2	United Insurance Company	100% Private	10,000,000	1997
3	Sahara Bank	47.92% State-owned 52.08% Private	252,000,000	1970
4	Alsaraya Trading and Development Bank	100% Private	33,333,330	1997
5	Wahda Bank	54% State-owned 46% Private	108,000,000	1970
6	Development and Commerce Bank	100% Private	50,000,000	1996
7	Sahara Insurance Company	100% Private	15,000,000	2004
8	Libyan Stock Market Company	45% State-owned 55% Private	50,000,000	2006

Source: *The Libyan Stock Market (LSM) Website (http://www.lsm.gov.ly/).*
Note: *This table provides details about the eight firms listed on the Libyan Stock Exchange at the time or writing.*

2.5 Financial Accounting and Reporting in Libyan

2.5.1 Legal Requirements

2.5.1.1 The Libyan Commercial Code (LCC)

The Libyan Commercial Code (LCC) was passed in 1953 and has been partially amended several times (the last modification was made in 1970 via the Commercial Act) to meet changing domestic and global requirements. The LCC stipulates requirements for the accounting practices, systems and reporting methods used by Libyan firms (Buzied, 1998). For example, the LCC requires companies to prepare a balance sheet and profit and loss account at least once a year. The responsibility for the preparation of accounts is assigned to the companies' directors who are also required to prepare a report about the company's performance. All annual reports are required to be made available at the company's headquarters to its shareholders at least fifteen days before the general assembly meeting at which the reports are to be attested (Article 580 of the LCC). A copy of the approved financial statements, along with the directors' and auditors' report must be submitted to the Commercial Register within 30 days (Article. 583 of the LCC). However, Libyan companies are not required by the LCC to provide the information included in the annual reports to the public. The Banking Law No.1 (2005) has further provision in this regard, as detailed below.

The LCC details certain assets and liabilities that must be disclosed in any company's balance sheet (Article, 573 of the LCC)[14]. Moreover, the LCC provides certain guidelines and instructions for the valuation of assets and liabilities, the creation of legal reserves, the valuation of invested capital and the distribution of profits (Articles 570-594). In addition, the LCC requires each corporation to have three corporate governance-related bodies: a Directors' Board, a General Assembly and an Auditing Board (Articles, 515-559 of the LCC).

2.5.1.2 Income Tax Law

Italian Income Tax Law, which was enacted in Libya in 1923, was used for many years, albeit with some modifications for the Libyan environment (Oreibi, 1969; Central Bank of Libya, 1971), until the first Libyan Income Tax Law was enacted in 1968[15]. Given the statutory power of Libyan tax officers to require that financial statements are prepared in accordance to the Tax Law -and because of the generally low demand for financial statements from other parties- many Libyan companies adopted the Income Tax Law requirements and guidelines as the basis of internal and external financial reporting practices (Bait El-Mal et al., 1973; Kilani, 1988). Thus, the application of

[14] The LCC does not detail any further items that must be disclosed in other financial statements.
[15] In 1973 this law was repealed and replaced by Libyan Income Tax Law No.64; this was replaced by Law No.11 in 2004.

Libyan Income Tax Law has had a major impact on accounting practices in Libya (Bait El-Mal et al., 1973).

Specifically, Libyan Income Tax Law No. 11 (2004) requires companies to submit financial statements audited by certified public accountants and to provide the tax authorities (within seven months of the fiscal year end) with their balance sheet, trading account, profit and loss account, depreciation statement and a detailed statement of the company's expenses that appear in the profit and loss account (Article 59). Detailed requirements are provided for depreciation, which should be based on the straight-line method and the historical cost of the asset (Articles 32). Establishment costs can be depreciated and charged against income within two to five years using the straight-line method (Article 34). The Law also allows companies to carry forward losses for a maximum of five years from the year of the loss (Article 35).

2.5.1.3 Banking Law

The first Libyan Banking Law was enacted in 1955 to establish the NBL as the nation's central bank. Since then, a number of laws have been published to regulate banking activities in Libya, most recently Banking Law No.1 (2005)[16]. This law includes 3 chapters and 121 Articles. Chapter one deals with the functions of the central bank, chapter two handles commercial banks and chapter three covers penalties.

Each commercial bank is required by Banking Law No.1 to assign the annual auditing of its accounts to two chartered accountants selected by the bank's general assembly

[16] This replaced the 1993 version of the law.

(Article 83).The auditors are required by the Law to prepare two kinds of reports and send a copy of each to the CBL within the period set by the governor. The required reports are:

1) A report on the bank's annual financial statements. The report should include the methods used to ascertain the existence and value of assets. the method for appraising existing commitments, and the extent to which the audited transactions comply with the law.
2) A semi-annual report monitoring the bank's financial and administrative performance and compliance with domestic and international banking criteria (Article 83).

In addition, each commercial bank is required by the Law to submit a copy of its most recent audited financial statements within four months of the end of its fiscal year to the CBL (Article 85). Finally, each commercial bank is also required by the Law to display, throughout the year -and in a conspicuous place at its head office and at all of its branches- a copy of its most recent, audited financial statements. It is required to publish these statements in the Register of Actions and in a domestic newspaper (Article 84).

2.5.2 Disclosure Requirements of the Libyan Stock Market

Since its establishment in 2006, the LSM has laid down several rules regarding disclosure form and content. In the last modification to the requirement[17], the LSM required that listed companies prepare their financial statements according to International Accounting Standards and that these statements to be verified according to International Auditing Standards. In addition, listed companies are required to publish their financial statements, notes to the financial statements, auditor's report and the

[17] For further information visit: http://www.lsm.gov.ly

LSM's notes on these financial statements in at least two widespread domestic newspapers within a week of their ratification by the company's general assembly. Listed companies are also now required to publish quarterly financial reports with a summary form external auditor's report attached.

2.5.3 Contemporary Libyan Accounting Practice

As mentioned above, all companies are required to prepare an income statement and a balance sheet by the LCC. However, Libya has not yet adopted or developed its an accounting standards[18] (Bait El-Mal et al., 1973; Kilani, 1988). Consequently, Libyan companies have tended to adopt a wide variety of accounting principles and methods to portray their financial position and performance (Bait El-Mal et al., 1988). This pattern has led in turn to important differences emerging in accounting practices across companies, even within the same industry or activity (Ahmad and Gao, 2004). Such inconsistent accounting practice makes comparison between companies more difficult and arguably reduces the usefulness of Libyan company annual reports and accounts (Bait El-Mal et al., 1988).

The current (inconsistent) accounting practices seen in Libya have evolved from those that were originally inherited from US and UK oil and non-oil companies operating in Libya during 1950s-1970s (Bait El-Mal et al., 1973; Kilani, 1988). Thus Libyan accounting practices have been strongly influenced by the principles and standards in

[18] Ala-Elden (1993) classified Arab nations according their accounting standards source as follows: first, countries that adopt the International Accounting Standards include the United Arab Emirates, Bahrain, Kuwait, Oman, Jordan, Sudan and Lebanon. Second, countries that adopt either the US or the UK accounting standards include Saudi Arabia and Egypt. Third, countries that have not adopted or developed any accounting standards include Morocco, Libya, Algeria, Tunisia, Syria and Yemen.

these nations, although not in any consistent and coherent manner (Kilani, 1988). The development of the accounting profession in Libya has had a major impact on how practice has shaped changes in practice since the US/UK influence first arose, and this is discussed in detail in the next section.

2.6 Accounting Profession

Prior to Libya gaining independence in December 1951, the national accounting profession did not exist, with most companies relying on the expertise of foreign accounting firms (Bait El-Mal et al., 1973). As a result, accounting practices were brought to the country from several overseas sources. During the period of Italian colonisation, the Italian accounting profession -and the Italian Income Tax Law of 1923- affected the development of enterprise accounting in Libya to a major degree (Kilani, 1988). However, the impact of Italian accounting practices in Libya was limited because most of the personnel who were appointed to managerial and accounting positions in Italian companies were Italians: Libyans were generally excluded from these positions. Moreover, Libyan labour forces were neglected and were not provided with any meaningful educational and technical training programs during this period (Bait El-Mal et al., 1973). Therefore, after the departure of the Italians, Libyans were neither adequately trained or qualified to implement Italian accounting practices themselves, or to develops a new Libyan-focussed system.

A strong dependence on advisors from the UK to help establish primary accounting systems developed thereafter. Therefore, during the 1950s, the accounting profession in Libya was strongly affected by British accounting standards and practices. These influences also reflected the importance of British oil companies (and other corporations) in Libya, as well as the role played by British advisers who worked in Libyan companies and governmental institutions (Bait El-Mall, 1973). The UK corporations were fully controlled and administrated by the British and implemented accounting systems based on British accounting convention, which in turn affected Libyan practices in a substantive way (Buzied, 1998).

During the 1960s, the British influence on the Libyan accounting profession was largely replaced by that of the US. Such influence on the Libyan accounting profession came primarily from the American oil and non-oil corporations that invested heavily in Libya during that time; these firms implemented American Generally Accepted Accounting Principles (GAAP) and assigned Libyans to senior accounting and managerial positions (Kilani, 1988). In this regard, Bakar (1997) argues that the current accounting education system and accounting profession in Libya are oriented toward the accounting environment in the UK and the US despite the significant social and economic differences between Libya and these countries.

With regard to auditing and accounting firms operating in Libya, the vast majority were British, Egypt or American through the 1950s and 1960s. The overseas-based firms imported their own business practices, accounting philosophies and systems wholesale to Libya (Kilani, 1988). However, by the early 1970s, most firms were Libyan (El-Sherif, 1978). This growth in numbers of auditing and accounting firms -and the urgent need to regulate and control standards and practices- were the two main forces contributing to the establishment of a professional accounting body in Libya and the development of a general accounting framework (El-Sherif, 1978). Consequently, Law No.116 was issued in 1973[19] to regulate the accounting profession and to create the Libyan Accountants and Auditors Association (LAAA). In June 1975, the LAAA was formally established with the following official goals:

1. To license public accountants and to maintain a register of public accountants;
2. To regulate, develop and improve the accounting and auditing profession and to improve the professional standards of accountants and auditors, academically, culturally and politically;
3. To arrange and participate in conferences, seminars relevant to accounting and the auditing profession, domestically and internationally;
4. To provide educational and training programs for its members;
5. To found a retirement pension fund for its members;
6. To increase cooperation amongst members and to protect their rights;
7. To ensure compliance with ethical codes of conduct; and
8. To bring disciplinary action against members who violate the ethics of the profession.

Practicing members of the LAAA must have Libyan nationality, a university degree in accounting and five years of post-qualifying practical accounting experience in an auditing firm (Law No. 116 of 1973)[20]. An accountant who has a Bachelor's degree in accounting, but without five years post-qualifying practical accounting experience can be registered as an assistant accountant. However, after becoming a member of the LAAA, no continuing professional training is required (Ahmad and Gao, 2004) and Libyan accountants are not required to pass a professional exam to be permitted to provide public accounting and auditing services (Bengarbia, 1989). For this reason, very few Libyan accounting firms conduct training programmes for their accounting staff (Ahmad and Gao, 2004).

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[19] Law No. 116 also covers the registration of accountants, the exercise of professionalism, fees, pension and contribution funds, obligations of accountants and auditors, penalties, and general and transitional provisions.
[20] Currently there are around 500 members of the LAAA (Ritchie and Khorwatt, 2007).

Since its establishment in 1975, the LAAA has arguably done very little to help build theoretical base for professional accounting in Libya. In addition, Bakar (1997) argues that it has failed to achieve its other objectives, causing the status of the accounting profession in Libya to remain poor. Until very recently, the LAAA had no formal code of ethics, but it has now adopted the American Institute of Certified Public Accountants (AICPA) code in its entirety, "providing the underpinning to its own ethical standards and judgments" (Ritchie and Khorwatt, 2007, p.41). Finally, the LAAA has not pronounced on a standard form and structure of auditor's reports and wide variation exist therein (Kilani, 1988; Bengarbia, 1989)[21].

2.7 The Accounting Education System in Libya

Educational organisations in Libya have played a key role in constructing and developing the accounting practices, with academics having an important influence (Mahmud and Russell, 2003). In 1952, the date of Libya's independence, few Libyans had been educated at university or trained and qualified as professionals in accountancy. Libya, as with other developing nations, depended heavily on British, American and United Nations' experts to establish an accounting education system at university level; content and structure was therefore imported from the developed world wholescale in most cases (Kilani, 1988; Buziad, 1998). The accounting education system in Libya is now divided into two levels: (i) middle education and training (secondary education or pre-university); and (ii) higher education (university level). These are discussed briefly below.

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[21] This issue may also partly reflect differences in the educational level of accountants (Bait El-Mal et al., 1988).

2.7.1 Accounting Education at the Pre-University Level

Accounting education in Libya at the middle level (pre-university). began with the foundation of the first School of Public Administration in 1953, the aim of which was to develop graduate clerks and book-keepers (Buzied, 1998). Since that time, over 30 commercial institutes, colleges and secondary commercial schools belonging to this level of education have been established to meet the increasing demand for book-keepers, accountants, clerks in state-owned and private Libyan organisations (Ahmed and Gao, 2004).

2.7.2 Accounting Education at the University Level

Academics in Libyan universities have played a key role in improving and developing the accounting practices (Mahmud and Russell, 2003). The accounting education system in Libya is based on the old (1957-1976) and new (post-academic year 1976 / 1977) accounting program at the University of Libya[22]. As detailed next, the difference between the two is that the old accounting education system was British in origin, while the new accounting education system is American-based (Bakar, 1997).

2.7.2.1 Accounting Education in the Undergraduate Programme

From 1957 to 1976, the Libyan accounting education system closely mirrored British practice reflecting Britain's administrative role over the period 1943 to 1952. Textbooks were a mix of British and Arabic, either translated from English or written by Arabic authors who had graduated from British universities (Bait El-Mal, 1973;

[22] The University of Libya was established in 1957 in Benghazi city, with a branch in Tripoli. In 1973, the two entities were divorced, becoming the University of Benghazi and the University of Tripoli; in 1976, the two universities were renamed the University of Garyounis and University of El-Fatah respectively.

Kilani, 1988). Until the early 1970s, accounting academics were mostly Egyptians who had graduated from British universities although a few British, Canadians and Americans were involved (the Libyan University, 1973). However, since 1976, the accounting education system has been completely restructured as an American-style system. Increasingly, Libyans who had graduated from American universities came to dominate accounting units (Kilani, 1988) and the textbooks used were now American or Arabic (either translated from American books or written by Arabic authors who graduated from American universities).

Until 1981, the Accounting Department in the faculty of Economic and Commerce at Garyounis University was the only Department and faculty that offered accounting education at University level. Because of the increasing demand for accounting services in the early 1980s, a number of universities and higher institutes were established to meet the growing needs. However, the number of suitably trained accounting academics in the new universities failed to increase sufficiently[23] and expansion in accounting education programs was halted. The shortage worsened under the UN sanctions, which made it almost impossible to recruit from overseas and for foreign experts to visit and teach in Libya (Ahmed and Gao, 2004).

2.7.2.2 Accounting Education in the Postgraduate Programme

Since 1988, the Accounting Department in the Faculty of Economics and Commerce at the University of Garyounis has offered a Master's program in accountancy. In the mid-

[23] A number of Libyans obtained a PhD degree from the UK and the USA during the 1980s. However, during the period of the UN sanctions, very few Western nations granted visas to Libyan students to go abroad to complete their postgraduate study.

1990s other institutions, such as the Al-Fath University, the Al-Jabal Al-Gharbi University (Faculty of Accounting in Gahrian) and the Higher Academy for Economic Studies have offered similar accounting education programs, with more Libyan universities following suit at the beginning of 2000s. With regard to PhD programs, to date neither the Accounting Department at Garyounis University nor any other universities or institutions have offered doctoral study regardless of the number of accounting academic staff who have their own PhDs (Ahmed and Gao, 2004). This lack of a PhD program is considered to be one of the main factors contributing to the slow development of accounting education and research[24] in Libya (Ahmed and Gao, 2004, p.379).

Accounting education in Libya has suffered from several problems which have had an impact on the development of accounting education and practices in Libya. Ahmed and Gao (2004) and Mahmud and Russell (2003) both suggest that the unsuitability of the syllabi to the needs of the economy, a lack of qualified accounting academics[25], the awkward marriage of academic teaching and professional training in the accounting curricula, the scarcity of modern textbooks and references in Arabic, inadequate public knowledge of the role of accounting, and insufficient accounting research are the main problems that have confronted accounting education improvement and accounting practices. Therefore, there is urgent need for putting a strategic plan for modifying and

[24] In this regard, Ahmed and Gao (2004, p.385) state that "in Libya, accounting research is almost non-existent, first, because the shortage of faculty means they have to spend most of their time in the classrooms to deliver programs; and secondly, because much effort has been expended on translating western accounting writings and textbooks".

[25] "the UN sanctions have made it very difficult for Libyan academics to attend conferences and courses overseas that would have been important for staff professional development and academic advance" (Ahmed and Gao, 2004, p.385).

modernising the accounting practices and education in Libya (Mahmud and Russell, 2003). This point, and others made in this section of the chapter, provide important context for the investigation of perceptions of accounting practices in Libya, where academics are one of many groups whose views are investigated.

2.8 Summary

This chapter has provided an overview of Libya's historical and economic background in an attempt to contextualise the empirical evidence that follows later in the thesis. The chapter highlighted the role of foreign nations, businesses and the UN in the nation's economic system. The influence of the oil discovery on economic progress was described and the key stages in the development of the Libyan banking industry were discussed. The legal requirements imposed by the Libyan authorities regarding financial reporting were explained. The state of the accounting profession in Libya was outlined and linked to the nature of and recent developments in accounting education in Libya. The next chapter continues to develop the background to the research presented later in the dissertation by explaining the financial disclosure concept and reviewing previous studies that have examined the perceptions of preparer and user groups and financial disclosure practices in both developed and developing countries.

Chapter Three
Literature Review

3.1 Introduction

The aim of this chapter is to highlight key studies and research relating to the issue that is the focus of this study, i.e. the nature of, and perceptions regarding, disclosures in annual reports. One of the key objectives of the literature review is to assist in shaping a structure for the research by identifying the general conclusions reached in previous analyses that are relevant to the present study. The first section of the chapter examines the definition of disclosure before going on to describe evidence on alternative disclosure formats. This is followed by a description of the costs and benefits related to the disclosure concept as well as discussion of the factors that may influence the nature of accounting disclosure; the objectives of financial statements; characteristics of accounting information; and users of financial statement respectively are all examined. The final topic covered in this section is financial disclosure in banks; consideration of this literature assists in clarifying the significance of accounting disclosure as a means of communicating financial information in the banking sector –this sector is the focus of the present study's empirical analysis. The second section of the chapter is divided into two parts; the first briefly reviews studies that examine the concept of disclosure in non-financial companies and then discusses in some detail studies that analyse disclosures by financial companies in both developed and developing countries. The second part reviews studies that investigate the perceptions and attitudes of preparer and user groups about annual reports and the accounting information disclosed within them.

3.2 Definition of Disclosure

Inspection of prior literature suggests that more than one definition for disclosure[26] exists. For instance, Choi (1973, p. 123) attempted to arrive at a comprehensive understanding of the concept by stating that

> "The term disclosure can ... be thought of as the publication of any economic datum relating to a business enterprise, quantitative or otherwise, which facilitates the making of economic decisions."

Wallace (1987, p. 133) defined disclosure of accounting information as: "the publication by a profit-seeking enterprise of any information relating to its activities with the hope of influencing the judgement and decisions of the users of such information". Abdeen (1989, p. 51) also emphasised the needs of users, stating that: "disclosure aims to make sure all material and relevant facts concerning financial position and the results of operations are communicated to users". Finally, at a more general level, Hussey (1999, p. 131) described a disclosure concept as "the provision of financial and non-financial information, on a regular basis, to those interested in the economic activities of an organisation. The information is normally given in an annual report and accounts, which includes financial statements and other financial and non-financial information."

From the abovementioned definitions, it seems to be clear that the disclosure concept is viewed in wide terms, and is not seen as only referring to financial statements. Since, the emergence of joint-stock companies and the separation between management and ownership, the need for disclosure has increased. Therefore, user groups of financial

[26] Disclosure is generally described by the Oxford Dictionary as "information or a fact that is made known or public that was previously secret or private" (p. 357).

reports have become heavily reliant on the extent of disclosure in these reports to find out about the true financial position of their investee companies. In particular, the disclosure concept is a key factor in helping such user groups to make financial decisions. However, debate continues regarding the kind of information that should be disclosed to best meet the needs of user groups.

Regarding the nature of information, disclosure could be in the shape of quantitative or qualitative information in mandatory or voluntary format. In this regard, Glauiter and Underdown (2001, p.345) described the disclosure concept as the process of "providing sufficient quantitative and qualitative information to help investors to make predictions about future performance", while Cooke (1992, p. 231) described disclosure as "consisting of both voluntary and mandatory items of information provided in the financial statements, notes to the accounts, management's analysis of operations for the current and forthcoming year and any supplementary information". Gibbins et al. (1990, p. 122) come up with a comprehensive description of nature of financial disclosure by stating that the disclosure concept is: "any deliberate release of financial information, whether numerical or qualitative, required or voluntary, or via formal or informal channels". The following both formats will be discussed in detail.

3.3 Financial Disclosure Formats

The distinction between disclosure that is mandated by government and other regulation and that which is voluntary is made throughout the disclosure literature and is examined in this section.

3.3.1 Mandatory Disclosure

Mandatory disclosure is described by Wallace and Naser (1995) as the presentation of a minimum quantity of accounting information required by laws, stock exchanges, and the accounting standards setting body to facilitate the assessment of securities. Disclosure is described as mandatory if firms are obliged under a disclosure regulatory system to disclose information items that are applicable to them (Owusu-Ansah, 1998). The efficiency of financial disclosure regulation in a country depends upon its regulatory requirements and enforcement mechanisms (Cooke and Wallace, 1990).

3.3.2 Voluntary Disclosure

Voluntary disclosure is described by Watson et al. (2002) as "disclosure in excess of those required by laws, accounting standards or stock exchange listing requirements regulations". Thus it represents the use of discretion by company administrations in supplying accounting and other information considered relevant to the decision-making requirements of users of their annual reports. The main motivation for such disclosure is likely to be investors demand for information needed to assess the timing and uncertainty of current and future cash flows in order that they might make informed decisions about portfolio choice. Firms satisfy this demand partially by providing voluntary accounting information items thereby enabling them to raise funds on the best possible terms (Meek et al., 1995). The authors also added that competition for external finance in global capital markets has led to a broad variety of voluntary disclosures, beyond those that are required by rules, becoming commonplace. It is widely accepted that firms' managers have a propensity to disclose information voluntarily to distinguish them from other firms (Watts and Zimmerman, 1986).

In sum up, disclosure is regarded as part of communication information system of entity which is responsible for providing information to a wide range of users for making financial decisions. In addition, financial reports, among other channels, are considered to be the most common tool of disclosing entity's information (Marston and Shrives, 1991). However, disclosing of information by entity is not free of charge (Craswell and Taylor, 1992). In the next section, costs and benefits of information disclosure will be discussed in detail.

3.4 Costs and Benefits of Accounting Information Disclosure

The decision to disclose additional financial information is typically modelled within a cost-benefit framework (Meek et al., 1995). Costs include increased exposure to competitive and political costs as well as the cost of preparing and disseminating additional information. Potential benefits include lower capital costs, improved marketability of company shares, and enhanced corporate images (Meek et al., 1995). According to Benston (1976), the main benefits of financial disclosure are the prevention and reduction of fraud and misinterpretation, promotion of fairness to non-insiders, lowering of transaction and information costs and helping of investors to allocate their resources more efficiently. Riahi-Belkaoui (1997a) divided the costs and benefits of disclosure into three categories: firms' interests, users' interests and national interests.

- ***Firms' Interests***

One of the main potential benefits of disclosure for companies is a reduction in the cost of capital, but this needs to be set against the costs of the disclosure process, embracing the cost of collecting, analysing, auditing, and disseminating the information. Riahi-Belkaoui (1997a, p.63), however, states that:

> "The cost of developing and presenting information that is also used by or needed by management must be excluded from the cost of developing such information for external disclosure".

Inadequate informative disclosure or misleading disclosure undertaken by the firm may cause litigation costs. However, the costs of litigation should decrease as disclosure levels rise (Riahi-Belkaoui, 1997a). Disclosure of information may also lead to incur competitive disadvantages because the information may weaken firm capacity to create future cash flows and economic rent. Riahi-Belkaoui (1997a) documented three types of information that may cause these problems:

1. Information about technical and administrative inventions.
2. Information about corporate strategies, plans, and tactics.
3. Information about operational processes.

- ***Potential Users' Interests:***

These interests primarily relate to those of investors and creditors who might invest in a firm in future. Riahi-Belkaoui (1997a, p.69) stated that:

> "The potential owners obtain the benefits of disclosure without the costs. They are free riders, not paying the costs of litigation, competitive disadvantage, or developing and presenting disclosure. However, they would pay these costs if they became owners in the sense that the stream of cash flows to the firm would be curtailed by the costs the potential owners had previously avoided as free riders".

- ***National Interests:***

According to this notion, low capital costs for firms can contribute to economic growth, employment, and an improved standard of living. In particular, adequate disclosure can contribute to effective allocation of capital by enabling investors and creditors to identify the most productive firms, as well as by contributing to the liquidity of the capital market. However, (Riahi-Belkaoui, 1997a, p.69) also noted that "an exception to the generalization that low capital costs are in the national interest is when inflation is being fought by higher capital costs".

From an individual firm point of view information releasers can have both positive and negative consequences, as information is provided to competitors. However, from a macro-level perspective increased competition among businesses leads to better efficiency and national competitiveness, which in turn contribute to the long-term growth of economy. Disclosure also plays a major role in government's consumer protection efforts. This includes regulating disclosure on product labels, in advertising, and in lending. In the US, for instance, the SEC regulates corporate financial disclosure to protect the interests of investors and creditors, the consumers of corporate securities. To the extent that informative disclosure provides adequate consumer protection, it is again in the national interest (Riahi-Belkaoui, 1997a).

3.5 Factors Affecting Accounting Disclosure

This section reviews the various factions that prior literature has suggested might have a role in this context.

3.5.1 Environmental Factors

Several environmental variables have been found to influence the main elements of a country's financial reporting system; several empirical studies have found evidence of a positive relationship between accounting and its environment (e.g., Belkaoui 1983;

Belkaoui and Maksy 1985; Gray, 1988; Meek and Saudagaran, 1990: Cooke and Wallace 1990; Doupnik and Salter 1995; Nobes, 1998). The influences are detailed below.

- ***Governmental Influence***

The role of governmental bodies has been one of the strongest influences on the development of financial reporting objectives, standards, and practices in various nations (Cooke 1989). The active contribution of governmental bodies in financial reporting regulation has been particularly important in countries with relatively weak and unsophisticated accounting professions. Taxation has also played a significant role in shaping a country's financial reporting system in conditions where financial reporting systems are strongly influenced by national objectives (Meek and Saudagaran 1990).

- ***Managerial Influence***

The managerial style of a given nation is significant to the progress of accounting practices in general and financial disclosure practices in particular. Riahi-Belkaoui (1997a, pp.118-119) stated that "when managers do not exert any influence on accounting development they are less likely to be supportive of its standards of reporting and disclosure. An increase in their influence and their participation generates a willingness to abide by its rules and improve the disclosure adequacy of accounting reports".

- ***Professional Influence***

The potential role of the professionals in shaping a country's financial reporting system has been highlighted in several previous studies. In countries with a strong and sophisticated accounting profession, the active contribution of the professionals in financial reporting regulation is tangible. The accounting profession as a group can be a significant influence on the development and growth of financial disclosure (Riahi-Belkaoui, 1997a). This author also added that:

> "Without the participation and influence of this professional accountant class, accounting development may suffer because its technical and demanding requirements may be misunderstood or misapplied by an 'alienated' profession". (p.119)

- ***Academic Influence***

Academicians play a significant role in developing accounting practices in general and financial disclosure in particular. When academicians do not participate in accounting setting, there is a probability that significant and relevant research results are not reflected in established benchmarks; consequently, their usefulness and credibility might be questionable (Riahi-Belkaoui, 1997a).

- ***Economic Influence***

Capital markets, particularly securities markets, have been found to be a major factor in economic development in various nations. Consequently, information disclosure becomes more significant and lead to the development of financial reporting practices (Meek and Saudagaran 1990). Countries with highly developed capital markets have a tendency to adopt a professionally regulated, true and fair audit scheme and disclose a relatively large number of items of information (Salter and Niswander 1995). The level of inflation has also been shown to be a key influence on accounting practices in nations, especially when a high level exists (Meek and Saudagaran, 1990).

- ***International Influences***

Colonial impact on the progress of financial reporting practices has been extremely important in developing nations. Accounting practices of developed countries has often been transferred and as a result, similar financial reporting systems have been founded in their colonies (Radebaugh 1975). Cooke and Wallace (1990) reported that levels of corporate financial disclosure regulations in many developing nations will be strongly influenced by external factors (i.e. colonial history, the impact of multinational corporations, regional economic communities, international trade, international accounting standards, international movements of accounting firms and professionals).

- ***Cultural Influence***

Financial reporting practices, as is the case with all human actions, are influenced by culture (Douglas 1989) and the influence of cultural determinations on financial reporting practices has been documented in various countries (e.g., McKinnon and Harrison 1985; Gray 1988; Doupnik and Salter 1995, etc.). For instance, in nations, which support a culture that has a high sense of secrecy, management is less likely to follow a high level of disclosure (Gray and Vint, 1995).

The abovementioned review has shown that the type of environmental factors that can influence accounting disclosure levels vary between countries. Accordingly, this context is important in a study such as this which attempt to investigate both the level and determinant of observed disclosure practices[27].

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[27] In addition to environmental factors, there are other factors relating to the economic entity itself which might arguably affect accounting disclosure practices and therefore are relevant to the present study. Many investigations have been conducted to evaluate the impact of firm-specific factors on disclosure

3.6 Objectives of Financial Statements

In the context of a study of disclosure such as this practices and views are clearly going to be related to the broader issue of the purpose of financial statements. To this end, The International Accounting Standards Committee (IASC) (1997: p. 44) stated that:

> "The objective of financial statements is to provide information about the financial position, performance and changes in financial position of an enterprise that is useful to a wide range of users in making economic decisions".

The Trueblood Report produced by the American Institute of Certified Public Accountants (AICPA) (1973, Para. 61-66) reached a number of conclusions regarding the desirable goals of the financial accounting process:

1) The basic objective of financial statements is to provide information useful for making economic decision.
2) An objective of financial statements is to serve primarily those users who have limited authority, ability, or resources to obtain information and who rely on financial statements as their principal source of information about an enterprise's economic activities.
3) An objective of financial statements is to provide information useful to investors and creditors for predicting, comparing, and evaluating potential cash flows to them in terms of amount, timing, and related uncertainty.
4) An objective of financial statements is to provide users with information for predicting, comparing, and evaluating enterprise earning power.

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levels, including: size of firm; listing status; industry type; firm age; leverage; profitability; ownership structure and qualification of the firms own accountants. Details on these are provided in Appendix 3.1.

5) An objective of financial statements is to supply information useful to judging management's ability to utilise enterprise resources effectively in achieving the primary enterprise goal.
6) An objective of financial statements is to provide information useful for the predictive process. Financial forecasts should be provided when they will enhance the reliability of users' predictions.
7) An objective of financial statements is to report on those activities of enterprise affecting society which can be determined and described or measured and which are important to the role of the enterprise in its social environment.

Statement of Financial Accounting No. 1, "Objective of Financial reporting by Business Enterprises" issued by The Financial Accounting Standards Board (FASB) (1978: Para. 34-52) in the US set out the objectives of financial reporting as follows:

1) Financial reporting should provide information that is useful to present potential investors and creditors and other users in making rational investment, credit, and similar decisions (Para 34).
2) Financial reporting should provide information to help investors, creditors and others assess the amount, timing, and uncertainty of prospective net cash inflows to the related enterprise (Para 37).
3) Financial reporting should provide information about the economic resources of an enterprise, the claims to those resources and the effects of transactions, events and circumstances that change resources and claims to those resources (Para 40).

4) Financial reporting should provide information about an enterprise's financial performance during a period (Para 42).
5) Financial reporting should provide information about how an enterprise obtains and spends cash, about its borrowing and repayment borrowing, about its capital transactions, including cash dividends and other distributions of enterprise resources to owners, and about other factors that may affect an enterprise's liquidity or solvency (Para 49).
6) Financial reporting should provide information about how management of an enterprise has discharged its stewardship responsibility to owners (stockholders) for the use of enterprise resources entrusted to it (Para 50).
7) Financial reporting should provide information that is useful to managers and directors in making decisions in the interests of others (Para 52).

Finally, in the UK, the Accounting Standard Board (ASB) issued its statement in December 1999 which identifies the objectives of financial statements as follows:

1. The objective of financial statements is to provide information about the reporting entity's financial performance and financial position that is useful to a wide range of users for assessing the stewardship of the entity's management and for making economic decisions.
2. That objective can usually be met by focusing exclusively on the information needs of present and potential investors, the defining class of user.
3. Present and potential investors need information about the reporting entity's financial performance and financial position that is useful to them in evaluating

the entity's ability to generate cash (including the timing and certainty of its generation) and in assessing the entity's financial adaptability.

3.7 Characteristics of Accounting Information

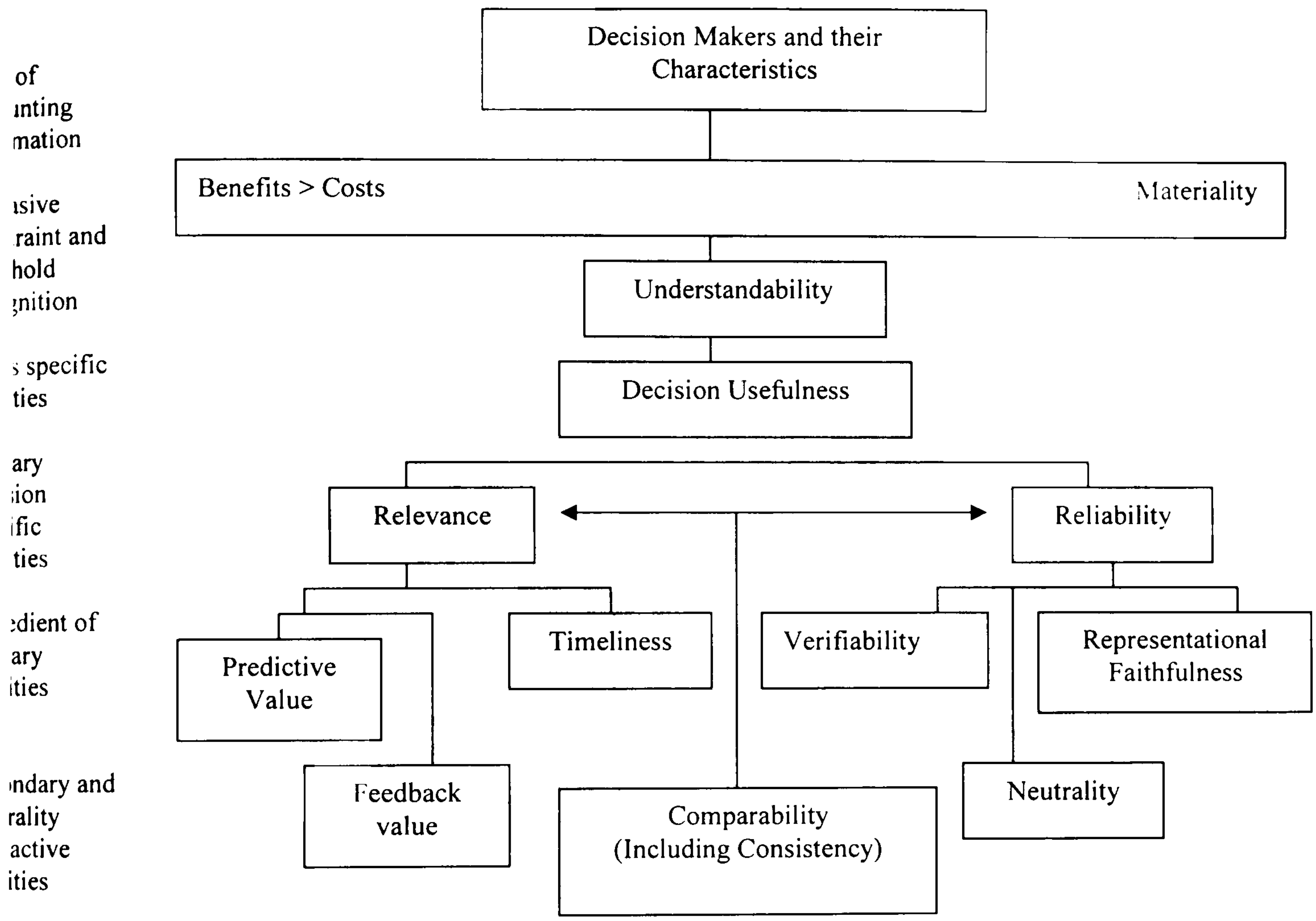
For accounting information to be useful for economic decision-making it should have some attributes that assist in helping the preferred accounting method, the amount and type of disclosure, and the format in which information should be presented to be determined. Many attempts have been made to identify the qualitative characteristics of financial statement and accounting information viewed as desirable for the fulfilment of their fundamental objectives. For example, the Corporate Report (1975) stated that, in order for corporate reports to be useful, they must be relevant, understandable, reliable, complete, objective, timely, and comparable. In a similar vein but five years prior to the Corporate Report, the US Accounting Principles Board (1970, APB Statement No.4) pointed out that:

> "Financial information that meets the qualitative objectives of financial accounting also meets the reporting standards of adequate disclosure. These qualitative objectives are (1) relevance, (2) understandability, (3) verifiability, (4) neutrality, (5) timeliness, (6) comparability, and (7) completeness".

However, later, ASB (1991) and FASB (2005) summarised the qualitative characteristics of accounting information into four main features, these include understandability, relevance, reliability and comparability. The reminder of this section of the chapter discusses these issues in detail. The FASB's (2005) statement views these characteristics as 'a hierarchy of accounting qualities', which then form the basis for selecting and evaluating information for inclusion in financial reports. The hierarchy is represented in figure 3.1.

TEXT BOUND CLOSE TO THE SPINE IN THE ORIGINAL THESIS

Figure 3.1: Hierarchy of Accounting Qualities



Quoted from FASB (2005), p. 74

- ***Relevance***

Financial statements are generally regarded as being adequate and meaningful if all relevant information has been reported and disclosed (Hooks et al., 2002). For financial information to be useful, it must therefore be relevant to the decisions made by users, as irrelevant information could clearly be misleading and might result in incorrect decisions being made. In this context, the International Accounting Standards Committee (IASC) (1989, p. 36) stated that:

> "To be useful, information must be relevant to the decision-making needs of users. Information has quality of relevance when it influences the

> economic decisions of users by helping them evaluate past, present of future events or confirming, or correcting their past evaluations"(Para 26).

In its statement of principles issued in 1991 The Accounting Standard Board (ASB) stated that "information has the quality of relevance when it influences the economic decisions of users by helping them evaluate past, present or future events or by confirming, or correcting, their past evaluations" (Para. 23). In its guidelines issued in 1998, The Basle Committee on Banking Supervision (BCBS) suggested that "to be relevant, information also needs to be timely. Information should be provided with sufficient frequency and timeliness to give a meaningful picture of an institution, including its risk profile and risk management performance". In its concepts statement issued in 2005 The FASB and its SFAC No.2 defines relevant accounting information as being information which is "Capable of making a difference in a decision by helping users to form predictions about the outcomes of past, present, and future events or to confirm of correct prior expectations".

- ***Reliability***

Reliability implies that users of accounting information can place a large degree of confidence on the information included in financial statements and that accounting system outputs can be used with a degree of trust. The Accounting Standard Board (ASB) in its Statement of Principles issued in December in 1999 ASB stated that "Information is reliable if:

> (a) It can be depended upon by users to represent faithfully what it either purports to represent or could reasonably be expected to represent; (b) It is free from deliberate or systematic bias (i.e. it is neutral); (c) It is free from material error; (d) It is complete within the bounds of materiality; and (e) In its preparation under conditions of uncertainty, a degree of caution (i.e.

prudence) has been applied in exercising judgement and making the necessary estimates."(Para. 26)

The Basle Committee on Banking Supervision (BCBS), (1998) stated that "information must also be reliable. In particular, information should faithfully represent that which it purports to represent, or could reasonably be expected to represent. Further, to be reliable it must reflect the economic substance of events and transactions and not merely their legal form, be verifiable, neutral (i.e. free from material error or bias), prudent, and complete in all material respects".

- ***Understandability***

Ijiri et al. (1966) suggested that accounting disclosure should be presented in an obvious and understandable form in order to enable users of the financial reports to make the right decisions. Similarly, Wolk et al. (1992) argued that even if users are assumed to be knowledgeable, information itself can have different degrees of comprehensibility. The quality of understandability is a characteristic influenced by both users and preparers of accounting information, for example, the ASB (1999, Para. 38) emphasised that "Information provided by financial statements needs to be understandable. In other words, users need to be able to perceive its significance."

In its concepts statement issued in 2005 The FASB and its SFAC No.1 describes understandability as being the key quality for accounting information to achieve decision usefulness, and it stated that the information provided by financial reporting "should be comprehensible to those who have a reasonable understanding of business and economic activities and are willing to study the information with reasonable diligence".

- ***Comparability***

Comparability in information across firms and across nations is vital to accounting information users to enable them to evaluate the relative financial position and performance of firms against other firms. In addition, comparability over time is necessary for the identification of trends in a firm's financial position and performance (BCBS, 1998). In its Statement of Principles issued in December 1999 the ASB states that

> "Information in an entity's financial statements gains greatly in usefulness if it can be compared with similar information about the entity for some other period or point in time in order to identify trends in financial performance and financial position. Information about an entity is also much more useful if it can be compared with similar information about other entities in order to evaluate their relative financial performance and financial position."

More recently in its concepts statement issued in 2005, the FASB argues that "The quality of comparability includes the fundamental accounting concept of consistency, since the usefulness of information is greatly enhanced if it is prepared on a consistent basis from one period to the next, and can be compared with corresponding information of the same enterprise for some other period, or with similar information about some other enterprise".

- ***Materiality***

Copeland and Fredericks (1968, p. 111) stated that "accountants generally believe that there is, or should be, a relation between materiality and disclosure", while Buzby

(1974a) indicated that materiality should be included in the list of the qualitative characteristics of financial statement and accounting information. The IASC (1989) stated that "information is material if its omission or misstatement could influence the economic decisions of users taken on the basis of the financial statements" (Para 30). Similarly, the BCBS (1998) stated that "Information is material if its omission or misstatement could change or influence the assessment or decision of a user relying on that information".

3.8 Users of Accounting Information

The discussion in the previous section outlined the key desirable features of accounting disclosure. However, such discussion cannot be complete without consideration and identification of the users of the information. Moonitz (1961) indicated that determination of the nature of adequate disclosure depends heavily on identifying the users of the information, in particular, regarding the type of financial information to be included in annual reports and the level of disclosure. The Trueblood Report, issued by the American Institute of Certified Public Accountants (AICPA) in 1973 indicated that "an objective of financial statements is to serve those users who have limited authority, ability or resource of information about an enterprise's economic activities"; many specific user groups have been identified in the pronouncements of authoritative standard-setting bodies and leading academics. For example, the UK's Corporate Report (1975) suggested that seven types of users exist: the equity investor group, the loan creditor group, the employee group, the analyst and advisor group, the business contact group (including customers, suppliers, competitors, and business rivals), the government, and the public.

In the US, the FASB (1978) attempted to provide a comprehensive description of users of accounting information, identifying 27 kinds as follows: owners, lenders, suppliers, potential investors and creditors, employees, management, directors, customers, financial analysts and advisors, brokers, underwriters, stock exchanges, lawyers, economists, taxing authority, regulatory authorities, legislators, financial press and reporting agencies, labour unions, trade associations, business researchers, teachers and students, and the public. The Canadian Institute of Chartered Accountants (1991) undertook a similar task more than a decade later, in this case classifying the users of financial information as either primary or secondary as follows:

- Primary users: shareholders; individual, and institutional, creditors; debt holders and trade creditors; and analysts and advisors.
- Secondary users: the public, standards setters, government, regulatory agencies, employees, customers, suppliers, industry groups, other companies, and academic researchers.

3.9 Financial Disclosure in the Banking Industry

In addition to the work received for examining the nature of financial disclosure in general, a range of analyses have focused on reporting by banks, the subject of the empirical analysis reported in this thesis. A bank is an organisation that deals with money and provides financial services to society through the process of intermediation. The financial sector in general, and banking in particular, is regarded as one of the most significant in most nations and has a major influence on the economy both domestically and internationally. Banks also play a crucial role in enhancing the stability and confidence of the financial system; more generally economic development of a country is very much related to the strength of its banking sector.

There is a consensus concerning the constructive role played by the financial sector in improving economic growth (Gerschenkron, 1962; Galbis, 1977). The effectiveness of financial intermediation can influence economic development (Ross, 1979). Study of 119 developed and developing countries over the 1960-1989 periods by King and Levine (1992) provided evidence that economic development is significantly reliant on the financial sector's size, the number of private sector banks, the level of credit provided to private enterprise and interest rates. The problem of information disclosure is of major relevance to the banking industry (Ross, 1979). The value of bank assets may be unclear, first, because they have primarily financial assets, which permit rapid and easy trading thus enabling the banks to move risk to investors without difficulty (Noe, 1999). Second, bank assets are predominantly non-tradable loans, for banks specialise in providing lending to borrowers of potentially unknown quality by collecting information about the borrowers and using it for their observing and monitoring.

Effective and full disclosure is generally regarded as a necessary condition for the discipline of markets in modern financial sectors. However, Spiegel and Yamori (2004) stated that the "determinants of disclosure are still unknown particularly among banks", and go on to suggest that government intervention is a necessary condition for ensuring that the private sector discloses a meaningful amount of reliable accounting information. The authors argued that government closely observes levels of bank assets due to its mission as a deposit insurer and a prospective lender of last resort. Therefore, the private sector is likely to have less need to monitor and discipline the levels of disclosure in banks, leading in turn to the likelihood that banks may not voluntarily engage in full disclosure (Spiegel and Yamori, 2004).

Huang (2006) suggested several reasons underpinning the importance of enhanced accounting disclosure for banking industry (compared to other industries):

> "First, accounting reports are almost the sole source of information for bank investors and other stakeholders. Banks own few physical and visible assets and investors can only have a sense of a bank's performance and asset quality from accounting numbers. Second, earnings numbers alone are not adequate for assessing the valuation of banks, the main business of which is to take risks and to provide liquidity. A bank can always inflate profit by providing more of these services, and thus profitability alone does not give investors the full picture of the bank's performance until the risk profile of the bank is comprehensively assessed and disclosed. Third, balance sheet and income statement information at aggregated level (e.g. total profit before tax, total assets, and total deposits) is less informative for banks than it is for industrial firms, because the useful information lies in the details and breakdowns of these items" (p. 3).

Banking firms are typically faced with more extensive disclosure requirements than other firms (Ahmed, 2005). For example, Huang (2006, p.1) noticed that:

> "Banks have been subject to stricter regulation and government official oversight than non-financial firms in part because of allegedly greater information asymmetry problems. Many of these information asymmetry problems can be resolved by market-based mechanisms such as the company management's enhanced disclosure of accounting information to outside investors, but some of them may have to be resolved through government regulations or even direct interventions, as many believe".

The lack of motivation to make voluntary disclosures in the banking industry leads to the issue of compulsory disclosure requirements. Over the past two decades, banking disclosure regulation has been steadily strengthened in terms of quantitative requirements and broadened in the range of required disclosure internationally (Frolov, 2007). One essential component of regulation is the profession's compliance with the industry rules. Non-compliance with accounting regulations places more pressure and responsibility upon the regulatory enforcing function (Taplin et al., 2002). In this regard, Walker (1985, p.12) argues that without enforcement "the production of accounting rules will be nothing more than symbolic behaviour unless it is accompanied by some programme for monitoring compliance with those standards, and for imposing sanctions for non-compliance". In addition, the extent to which firms comply with legal, lawful and regulatory requirements depend on the strictness or laxity of the government, professional and other regulatory bodies (Marston and Shrives, 1991, p.196).

The Basle Committee on Banking Supervision (BCBS) (1998) presented a list of benefits of disclosure, not only for banks but also for the supervision process as well as the economy in general;

1. A sound and well-managed bank should, in theory, benefit when it provides comprehensive, accurate, relevant and timely information on its financial condition and performance and ability to manage and control risks. Such a bank should be able to access capital markets more efficiently than similar institutions that do not provide adequate disclosures.
2. Market participants benefit from disclosure if they can use the information as the basis for making various types of economic decisions
3. Importantly, disclosure helps prevent the occurrence of problems in banks. Enhanced public disclosure allows market discipline to work earlier and more

effectively, thereby strengthening the incentives for banks to behave in a prudent and efficient manner.

4. There are other benefits of transparency to financial stability. Market disruptions are likely to be greater if the flow of information is irregular, with long periods of good or no news and sudden releases of negative information. If disclosure is ongoing the mechanisms of market discipline can work earlier and more effectively.
5. Public disclosure can also help limit the systemic effects of market disruptions by increasing the ability of the market in times of stress to distinguish those banks that are vulnerable from those that are not. Banks that are prone to hide, or significantly delay disclosure of problems are likely to be more exposed to market overreactions than banks that have a track record of prompt and balanced disclosures.
6. Enhanced public disclosure can strengthen the control shareholders as a group can exercise over a bank's management by enabling a wider set of shareholders to participate effectively in the governance of the bank and by making the corporate governance process more transparent.
7. Public disclosure can reinforce specific supervisory measures designed to encourage banks to behave prudently, e.g., supervisory guidance on sound practice in risk management, by requiring banks to disclose whether or not they are in compliance.

8. Adequate public disclosure facilitates a more efficient allocation of capital between banks since it helps the market accurately assess and compare the risk and return prospects of individual banks (pp. 5-7).

Many national and international accounting organisations have published standards, recommendations and guidelines that set out a required framework for accounting disclosure in general, as well as the banking sector in particular. These organisations include International Accounting Standards Committee, the US-based Financial Accounting Standards Board and the Basel Committee on Banking Supervision, which has effectively promoted greater disclosure by firms and transparency of financial information. These organisations affirm that there are advantages to the disclosure requirements they impose.

- ***The International Accounting Standards Board***

In 1973, the accounting bodies of nine countries founded the International Accounting Standards committee (IASC). The stated aims of the IASC are as follows:

1. "To establish and issue in the public interest accounting standards to be observed in the presentation of financial statements and to promote their international acceptance and observation.
2. To act commonly for the upgrading and coordination of regulations, accounting standards and procedures relating to the presentation of financial statements".

In 2001 the IASC was changed and became known as the International Accounting Standards Board (IASB), with membership comprised of accountancy bodies from more than 90 countries; IASB has become the authoritative source of standards relating to accounting disclosure in financial statements.

- ***The Financial Accounting Standards Board***

The Financial Accounting Standards Broad (FASB) was established as a private organisation in 1973. The stated aim of the FASB is to "institute and upgrade standards of financial accounting and reporting for the guidance and instruction of the public, including publisher, auditors and users-groups of accounting information". FASB standards are formally accepted as authoritative by a number of American bodies including the Securities and Exchange Commission and the American Institute of Certified Public Accountants. To achieve its task, the FASB takes action:

1. "To improve the usefulness of financial reporting by focusing on the primary characteristics of relevance and reliability and on the qualities of comparability and consistency;
2. To keep standards current to reflect changes in methods of doing business and changes in the economic environment;
3. To consider promptly any significant areas of deficiency in financial reporting that might be improved through the standard-setting process;
4. To promote the international convergence of accounting standards concurrent with improving the quality of financial reporting; and
5. To improve the common understanding of the nature and purposes of information contained in financial reports" (FASB, 2005).

- ***Basel Committee on Banking Supervision***

Of specific relevance to disclosures by banks is the role of the Based Committee on Banking Supervision (BCBS). The Central bank Governor of a group of ten countries established the BCBS at the end of 1974. The BCBS consists of senior representatives of banks' supervisory authorities and central banks from Belgium, Canada, France, Germany, Italy, Japan, Luxembourg, Sweden, Switzerland, the United Kingdom, the United States, and Spain. The main objective of the Basel Committee is to improve supervisory understanding and the quality of banking supervision internationally.

The Basel Committee indicated that disclosure alone does not necessarily result in transparency. To accomplish transparency, a bank must provide timely, accurate, relevant and adequate disclosures of qualitative and quantitative information that enables users to make an appropriate evaluation of the organisation's activities and risk profile. Some qualitative characteristics of transparent information are important for the purpose of reaching the desired transparency. These characteristics are comprehensiveness, relevance and timeliness, reliability, comparability, and materiality.

3.10 Previous Empirical Studies

The objective of this section is to provide a review of the main literature that is relevant to the research problems of this study. This section reviews studies that have focused primarily on disclosure of information in corporate annual reports, in particular the extent to which specific items of information are disclosed in the documents and user and preparer groups' perceptions about financial disclosure practices. The first part of this section reviews studies of the amount and nature of disclosures in financial reports, while the second part investigates surveys of users' and preparers' views about financial disclosure practices.

3.10.1 Studies of Disclosure Levels in Annual Reports

3.10.1.1 Disclosures by Non-Financial Companies

3.10.1.1.1 Disclosure Levels and Determinations

Since the 1960s, there has been an increased level of interest in accounting disclosure studies in both developed and developing countries. Many research studies have been carried out to examine the extent of disclosure in annual reports and the relationship between it and a number of firm-specific attributes (including size of firm, firm age, type of industry, profitability, leverage, ownership structure, listing status, etc.) in non-financial companies.

Studies in Developed Countries

One of the first investigations of the link between disclosure levels and firm-specific characteristics were provided by Cerf (1961), in this case in the USA. The study reported that there was a significant relationship between both firm size and listing status and the level of disclosure but no relationship existed with profitability. Following Cerf's analysis a further study by Singhvi (1967) revealed a positive relationship in the US, between asset size, number of shareholders, listing status, audit firms, rate of return, earnings margin and type of management and the quality of disclosure as well as documenting an association between asset size, number of shareholders, rate of return, earnings margin, management type and the quality of disclosure by Indian firms. Five years later, Singhvi and Desai (1971) found a significant relationship between firm size, listing status, profitability and the quality of financial disclosure.

A third USA study, Buzby (1972) concluded that a positive association exists between total assets and the extent of disclosure while listing status was found to exert no influence on disclosure levels. In a later study, Buzby (1975) noted a significant relationship between firm size and the level of disclosure, but again no relation with listing status was found. In the latter USA study, Stanga (1976) reported that the level of disclosure was strongly linked with industry type, but was unrelated to firm size. In Canada, Belkoui and Kahi (1978) found a significant relationship between firm size, industry type and liquidity and disclosure adequacy, as well as a negative relation with profitability and capitalisation.

In the UK, Firth (1979) found an association between voluntary disclosure levels and both firm size and listing status, as well as a negative relation with audit firm size. In a later study, Firth (1980) found that smaller companies considerably increased their voluntary disclosure levels when raising new finance on the stock market, but larger companies did not do so. In New Zealand, McNally et al. (1982) discovered a positive association between firm size and disclosure levels but rate of return, growth, industry type and audit firm size were found to have as significant influence. A second New Zealandian study by Hooks et al. (2002) found that many information items are not sufficiently disclosed, resulting in an information gap between shareholders' expectations and the disclosures presented by the New Zealandian electricity firms.

In Sweden, Cooke (1989) found the level of disclosure in the corporate annual reports of Swedish companies was only 51%. Cooke also found a positive relationship between firm size, listing status, industry type and the extent of disclosure. In Japan, Cooke (1992) found that the extent of financial disclosure in Japanese companies' annual reports was 56%. Cooke also found a positive association between firm size, industry type[28], likelihood of listing on a foreign stock market and the extent of disclosure. Similarly in the American oil and gas industry, Malone et al. (1993) documented a positive association between listing status, ratio of debt to total equity, number of

[28] Japanese manufacturing firms disclose significantly more information than other types of firms.

shareholders and the extent of disclosure, although audit firm size, total assets, rate of return, industry type earnings margin, proportion of outside directors and presence of foreign operation were found to exhibit no relation. In Switzerland, Raffournier (1995) provides comparable evidence of a positive association between firm size, international affiliation, percentage of fixed assets, audit firm size, industry type, profitability and the extent of disclosure, while leverage, ownership structure had no significant effect. In Spain, Inchausti (1997) reported a positive relationship exists between firm size, audit firm size, listing status and the extent of disclosure, while profitability was found to be a negative influence. A second Spanish study, by Giner (1997), found that firm size , audit firm size and the propensity to be listed were associated with the level of financial disclosure whereas profitability, leverage, industry type and dividend pay-out bore no relationship. In France, Depoers (2000) reported that a significant positive relationship exists between firm size, foreign activity, a proxy for proprietary costs and the level of voluntary disclosure while leverage and ownership structure were found to be insignificant.

Studies in Developing Countries

In addition to studies of disclosure produce in developed market, an extensive equivalent literature has emerged in developing nations. This evidence differs from the former to a certain extent; for example in Nigeria, Wallace (1987) found the disclosure level to be very low and he also found a significant relationship between firm size and the corporate disclosure and between the type of management impact and the extent of legal disclosure. In India, Singh (1983) reported a significant positive relationship between both firm size and profitability and the disclosure level, but no relationship was found with firm age or industry type. A second Indian study by Pradhan (1990) found a significant positive association between company size and financial disclosure levels. A third Indian study by Khandewal and Agarwal (1991) found no significant differences in the levels of disclosure across years, but considerable variation between firms. A forth Indian study by Ahmed (2005) reported that the levels of voluntary disclosure of Indian firms are low and the variability therein is substantial.

In Mexico, Chow and Wong-Boren (1987) found a positive association between firm size and the extent of voluntary disclosure whilst leverage and proportion of assets were found to have an impact. In Bangladesh, Parry and Groves (1990) found a negative association between both firm size, and a multinational subsidiary status and the level of disclosure, but no relationship between the qualification of accountants and the level of disclosure. A second Bangladeshi study by Ahmed (1996) found evidence of a significant positive link between audit firm size and the level of disclosure whereas firm size, total debt and qualification of accountants were found to be insignificant in this regard. In Malaysia, Hossain et al. (1994) found evidence of a significant relationship between company size, ownership structure, foreign listing status and the level of voluntary disclosure, but no relationship was found with leverage, assets-in-place and auditor size.

A study of Zimbabwe by Owusu-Ansah (1998) suggested that a positive link existed between disclosure levels and: firm size, ownership structure, firm age, international affiliation, and profitability. In Libya, the country examined in this thesis, Salah (2002) found that the level of disclosure in annual reports of Libyan firms was low. In Jordan, Naser et al. (2002) found that firm size, debt ratio, profit margin and audit firm size were significantly associated with the depth of disclosure, whereas liquidity was found to be negatively associated. More recently, Alsaeed (2006) reported that the level of disclosure in Saudi Arabia firms was relatively low, with firm size proving to be the only variable that significantly affected the level of disclosure[29].

3.10.1.1.2 Compliance with Mandatory Disclosure Requirements

In addition to the studies of voluntary and overall disclosure, a number of investigations of mandatory disclosure levels have also been conducted. While in developed countries it is often argued that mandatory disclosure levels will be so high that their formal study unlikely to yield novel insights (Lang and Lundholm, 1993). Developing nations research often explicitly considers mandatory disclosure practices, because monitoring of disclosure by authorities in such countries is typically poor (e.g., Ahmed and Nicholls, 1994 and Wallace et al., 1994). In such an environment, mandatory items may be perceived as, de-facto, voluntary in nature (Al-Bastaki, 1997). This section discusses developed nation-based studies first then those examining developing nations and finally those that provide evidence on both.

Studies in Developed Countries

One of the first investigations of compliance with mandatory disclosure requirements were provided by Stilling et al. (1984), in this case in the UK. The study concluded that the degree of compliance with International Accounting Standards was very low. A study by Cooke (1992) revealed that although Japanese firms complied greatly with

[29] Leverage, ownership structure, age of firm, profit margin and return on equity, liquidity, industry type, audit firm size were all found to be insignificant.

mandatory disclosure requirements; the average compliance rate with mandatory disclosure requirements was 95% (with a range of 88% to 100%), while voluntary disclosure levels were very low. Wallace et al. (1994) found that the level of compliance with mandatory disclosure requirements in Spanish companies was 51% (with a range of 29% to 80%). Wallace et al. also found that company size and listing status were positively associated, while liquidity was negatively associated with the level of mandatory disclosure. In Switzerland, Dumonties and Raffournier (1998) concluded that a positive association exists between size of firm, internationality, listing status, auditor type, ownership structure and Swiss firms' voluntary compliance with IASs, but leverage, profitability and capital intensity had no such influence. A study by El-Gazzar et al. (1999) documented a significant association between multinationals' compliance with IASs and: the size of a company's foreign operations; its funding policy; its propensity for membership of certain EU geographical and trade blocks; and multiple listings on foreign stock exchanges. In the USA, Street and Bryant (2000) revealed that not only is the level of disclosure amongst firms with US listings highest but the degree of compliance with IASs is greater for firms with US listings, while Glaum and Street (2003) found that German companies do not fully comply with mandatory disclosure requirements; only 83.7% of the mandated items were disclosed by listed firms on average.

Studies in Developing Countries

Wallace (1988) found that the majority of Nigerian listed companies did not comply fully with legal disclosure requirements. In Hong Kong, Benjamin et al. (1990) found that medium sized companies exhibit a greater degree non-compliance with disclosure requirements than large and small companies; the study also reported that no significant relationship exists between either auditor size or industry type and non-compliance with disclosure requirements. In Tanzania, Abayo (1993) concluded that the average level of compliance with mandatory disclosure was only 53%, while voluntary disclosure levels were very low. In Bangladesh, Ahmed and Nicholls (1994) documented a positive association between audit firm size, subsidiaries of multinational firms and compliance with disclosure requirements, whilst the qualification of accountants was found to have no impact. A second Bangladeshi study by Akhtaruddin (2005) concluded that the degree of compliance with mandatory disclosure requirements in Bangladeshi firms was low (44%) and that no significant relationship existed between either age of firm, listing status or profitability and mandatory disclosure; firm size was found to exert a marginally significant positive influence.

In the Czech Republic, Patton and Zelenka (1997) found that the level of compliance with mandatory disclosure requirements in Czech companies was 60%. Patton and Zelenka also documented a significant association between type auditor, profitability, number of employees and listing status and the level of mandatory disclosure whilst company size, industry type and leverage had no association. A study by Xiao (1999) reported that the level of Chinese listed firms' compliance with mandatory disclosure requirements is generally high, with listed firms disclosing many information items voluntarily. A second Chinas study by Lin and Wang (2001) noted that most listed firms do not comply fully with the disclosure requirements of IASs. A third Chinas study by Leung et al. (2006) revealed that the level of compliance with mandatory disclosure standards was high. The author also documented a positive association between the degree of compliance with mandatory disclosure requirements and: the employment of a Big 4 auditor, firm size; tradable shares; and internal auditor presence; in contrast, listing on a foreign market was found to be negatively associated with the level. In terms of voluntary disclosure, the study reported a positive association between leverage, employment of a Big4 auditor, listing on a foreign market, business segments and the level of voluntary disclosure but, in this case, profitability was found to have a negative influence.

A study by Chamisa (2000) concluded that the degree of compliance by Zimbabwean firms with IASs, and their influence on the disclosure reporting practices of the nation's listed firms was significant, with IASs generally being found to be applicable in Zimbabwe and similar developing nations. In Bahrain, Joshi and Ramadhan (2002) found that adoption of International Accounting Standards by Bahraini firms was not seen as costly, with around 84% of firms strongly agreeing that use of IASs enhances their ability to seek financial assistance from banks; in addition, 90% of firms concurred that IASs assist with achievement of their aims and enhance the efficiency of financial reporting. In Saudi Arabia, Naser and Nuseibeh (2003) found that all Saudi companies complied with the vast majority of mandatory disclosure requirements with the exception of electricity companies. In contrast, the level of voluntary disclosure was relatively low. In Egypt, Hassan et al. (2006) found that the level of compliance with mandatory disclosure requirements was 90%, while the level of voluntary disclosure was 48%. The author also documented company size and profitability as having a positive influence on voluntary disclosure levels, but firm size impacted negatively on mandatory disclosure levels. However, Dahawy and Conover (2007) found that the level of compliance with mandatory disclosure requirements (those are based on IAS) in the actively traded companies listed in Egyptian Stock Market was only 61%, while Samaha (2008) suggests that there are large variations in compliance with IASs among Egyptian companies in general, with overall compliance levels being very low, (just 50% for IASs disclosure indices, with a range of 0.11 to 0.90).

Studies in Developed and Developing Countries in Aggregate

Tower et al. (1999) carried out an investigation into the level of compliance with mandatory disclosure requirements across six developed and developing countries and they found that the compliance rate on average was 94% in Australia, 93% in Thailand, 90% in Singapore, 90% in Malaysia, 89% in Hong Kong and 88% in Philippines. Ali et al. (2004) also examined the level of compliance with disclosure requirements within three major countries within South Asia, namely India, Pakistan and Bangladesh and they found that Pakistan had the highest level of overall compliance (80.7%), whereas slightly lower compliance levels are documented for India (78.6%) and Bangladesh (77.7%). Al-Shammari (2005) examined the level of compliance with disclosure requirements across the Gulf Co-Operation Council (GCC) member states and found the highest average compliance levels in the UAE and Saudi Arabia (75% each), followed by Kuwait (72%), Qatar (69%), and Bahrain and Oman (both 65%).

3.10.1.1.3 Other Aspect of Disclosure by Non-Financial Companies

A range of studies focused on other aspects of disclosure practices, for example timeliness and comprehensiveness. In this regard, Wallace et al. (1994) documented a significant relationship between firm size, listing status and disclosure comprehensiveness in Spain, but the latter was unaffected by gearing, earnings, industry type or auditor firm size. In Hong Kong, Wallace and Naser (1995) found that company size, industry type, audit firms size were significantly related to disclosure comprehensiveness, whilst profit margin was found to be negatively related. In Egypt, Mahmood (1999) found a positive association between audit firm size, industry type, listing status, commercial law type, and disclosure comprehensiveness. In Greece, Leventis and Weetman (2004) concluded that, while all firms comply with the main regulatory deadline, there is a wide gap between the fiscal year end and the date of first issue of the financial reports. A recent study by Owusu-Anash and Leventis (2006) found that 92% of the companies listed on the Athens Stock Exchange reported early (relative to the 161-day regulatory deadline), 3% reported on the 161st day and 5% reported late. Multivariate regression analysis reported in the study suggests that large companies, service companies and companies audited by the former Big-5 audit firms have shorter final reporting lead-time.

Other studies such as Sengupta (1998) studied a link between disclosure quality and cost of debt capital. The author documented that firms with high disclosure quality ratings from financial analysts enjoy a lower effective interest cost of issuing debt. The author also found that the relative importance of disclosures is greater in situations where there is greater market uncertainty about the firm as reflected by the variance of stock returns. Botosan (1997) examined the association between disclosure level and cost of equity capital. The author reported that greater disclosure is associated with a lower cost of equity capital. The Al-Razeen and Karbhari (2004) investigated the interaction between the compulsory and voluntary disclosure in the annual reports in

Saudi Arabia. The authors documented that there is a significant, positive correlation between mandatory disclosure and voluntary disclosure related to the mandatory disclosure whereas a correlation between voluntary disclosure and mandatory disclosure and voluntary disclosure related to the mandatory disclosure was found to be weak and insignificant.

This part of the chapter now shifts its focus to studies of disclosures by financial companies. Whilst the wider literature discussed above provides important context, the present study examines disclosure in the Libyan banking sector; this part of the review outlines key studies in the financial sector -3.10.1.2 reviews studies that have examined financial and non-financial companies together, while 3.10.1.3 covers those that focus exclusively on the finance industry.

3.10.1.2 Aggregate Studies of Disclosure by Financial and Non-Financial Companies

The studies discussed in the previous subsections have focused on corporate disclosure in non-financial companies; they excluded financial companies on the basis that they are different from non-financial companies in fundamental ways including the nature of assets and the disclosure standards used. Although, Karim and Ahmed (2005) argue that financial sectors should not be excluded since they form a major part of the corporate structure in developing nations. In this regard, Al-Shayeb (2003) attempted to evaluate the extent of financial disclosure in the 2000 annual reports of 54 United Arab Emirates' (UAE) banking, insurance and service firms, and to examine the influence of company size, age of firm, profitability, industry type and multinational status on compliance with regulations. The author developed an index of disclosure comprising

72 items of mandatory and voluntary information. The findings of the study revealed that the overall degree of compliance in the UAE is low (49%). with none of the sampled firms complying fully with mandatory disclosure requirements. The results of this study also indicated that banking and insurance companies disclose more information than other industry types and the extent of financial disclosure compliance. The results of univariate and multivariate test were different where univariate test revealed significant associations between disclosure index and firm age and profitability, while the step-wise regression model revealed that effects of the firm age and profitability on disclosure were insignificant. In contrast, univariate test revealed insignificant associations between disclosure index and multinational influence, whereas step-wise regression models revealed that the effects of the multinational status on disclosure were significant.

A Bangladesh based study in 2005, by Karim and Ahmed (2005) empirically examined the extent of financial disclosure in the country upon adoption of International Accounting Standards; the study also reports on relationship between certain firm-specific characteristics, (firm size, profitability, stock exchange security category, size of audit firm[30] and the presence or not of an international link, leverage, whether the company is in the financial sector or not, the influence of an multinational parent, and the employment of qualified accountants) and levels of disclosure in corporate annual reports. The sample used the 2003 annual reports for 188 firms listed on the Dhaka and Chittagong Stock Exchanges[31]. The authors constructed an unweighted disclosure index consisting of 411 items. The findings of the study revealed that there is a positive

[30] Firm size was measured by the number of qualified accountants.
[31] The sample included both financial and non-financial companies.

relationship between disclosure extent and: company size; size of audit firm; profitability; companies categorised as 'Z' by the Dhaka Exchange; and for those that were subsidiaries of multinationals. In contrast, financial services (banking and insurance) sector demonstrated negative association with disclosure levels.

Bribesh (2006) investigated disclosure practices in the annual reports of 45 Libyan finance, manufacturing and services, and construction firms, including examining the influence of company size, profitability, industry type, audit status and ownership on the observed levels. The author developed two indices of disclosure: one with 23 items of mandatory information and one with 42 items of voluntary information[32]. The findings of the study revealed that Libyan firms closely comply with mandatory disclosure requirements; more than 90 percent of the mandatory items were reported by the sampled companies. The author also found that the level of "voluntary (close mandatory)" disclosure was low compared to the level of mandatory disclosure, ranging from 1.9 to 25.8 percent across the items concerned. In terms of optional disclosure, levels were low in comparison with mandatory disclosure (and "voluntary close mandatory" disclosure); the figures ranged from 7.1 to 24.5 percent. Finally, the results of the study also revealed that there is a significant association between the extent of mandatory or voluntary disclosure and firm size, ownership, industry type[33] and profitability. In contrast, there no strong relationships exist between the extent of mandatory or voluntary disclosure and audit status.

[32] The voluntary disclosure items were classified into two categories. The first category contains 27 voluntary (but close to mandatory) items, while the second includes 15 optional items.
[33] Companies in the manufacturing sector disclose more information than other companies.

Barako (2007) examined the level of voluntary disclosure by 54 Kenyan financial and non-financial companies listed on the Nairobi Stock Exchange (NSE)[34] over 1992-2001 using a four-way classification of information. Specifically disclosures were categorised as being either: general and strategic; financial; forward-looking; or social and board information through annual reports and the influence of three factors (governance, ownership and company characteristics)[35] studied. The author constructed a weighted and unweighted disclosure index consisting of 47 voluntary items that reflected practice in previous studies. The findings reveal that the level of voluntary disclosure in Kenya is generally low. Although, there was evidence of some improvement over the period studied. In particular, there was a substantial increase in the level of voluntary disclosure in the general and strategic information category. Conversely, voluntary disclosure of forward-looking and social and board information was very low; there even appeared to be a decrease in the level of disclosure of financial and social and board information. Multivariate panel regression analysis revealed that all types of information disclosures are influenced by corporate governance attributes, corporate characteristics and ownership structure; board leadership, foreign and institutional ownership and firm size are key variables in this regard across all four categories of information. The presence of an audit committee, external auditor type and shareholder concentration are also key influences on the voluntary release of most types of information. Finally, the industry in which a firm

[34] The companies included in this study are from four sectors: agriculture (7 firms); commercial and services (10 firms); finance and investments (11 firms); and industrial and allied (15 firms).

[35] The corporate governance characteristics studied in this research are: board composition, board leadership structure and audit committee formation. Firm ownership structure characteristics are: ownership concentration, foreign ownership and institutional ownership. The company characteristics examined are: size, leverage, type of audit firm, profitability and liquidity.

operates is show to be a significant variable, with firms in the agriculture industry voluntarily providing more information across all four categories than firms in other industries[36].

A second UAE based study by Aljifri (2008) examined the extent of disclosure in the annual reports of 31 UAE (financial and non-financial) companies listed on either the Dubai Financial Market or Abu Dubai Securities Market for the fiscal year 2003. The analysis sought to determine the impact of sector (banks, insurance, industrial and service), firm size, debt-equity ratio and profitability that might on disclosure levels. To achieve this goal, the author employed an unweighted disclosure index which included 73 items of financial information that are relevant and applicable to the UAE environment and could reasonably be expected to appear in the annual reports[37]. The findings indicated that a significant association exists between the extent of disclosure and the sector type -banks were found to disclose more information than firms in the other sectors, with the insurance companies having the lowest overall levels of disclosure[38]. In contrast, size, the debt equity ratio and profitability were found to have only insignificant associations with disclosure levels. Consequently, the author argued that the extent of disclosure in the UAE is driven more by regulations than by market forces.

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[36] With the exception of finance and investment firms in the financial and forward-looking information categories.

[37] Weighted least square (WLS) logistic regression analysis, as well as parametric and nonparametric approaches, was used to test the hypotheses.

[38] According to the author, this finding may reflect the UAE Central Bank's increasingly strict control of financial institutions; other sectors have relatively weak legal and institutional enforcement.

3.10.1.3 Disclosure by Financial Companies

In terms of financial companies, the first major study was carried out was in 1981 by Kahl and Belkaoui, two decades after the initial study that was carried out in non-financial companies (Cerf, 1961). As Kahl and Belkaoui (1981) pointed out, the accounting disclosure practices of banks have not yet received the same degree of attention as those of non-financial firms. Similarly, Alhajraf (2002) pointed out that disclosure in financial statements has been the subject of much research endeavour, but disclosure practices in the financial statements of banks have not yet been given the attention they deserve. In addition, although the financial sector generally (and banks in particular) represent a significant and influential sector of the economy of many developed and developing countries, no study has yet specifically examined the disclosures made in the annual reports of banks (Al-Bastaki, 1997)[39].

In this section the main focus is on disclosures in the banking sector in developing countries as this is of most relevance to the thesis empirical analysis. However, a few recent studies in developed countries are revived first to provide context. The final part of the section examines studies that have attempted to compare the two.

3.10.1.3.1 Financial Disclosure in the Banking Sector: Evidence from Developed Countries

Jordan et al. (2000) examined the stock market reaction to announcements of formal supervisory actions by US banks. The paper also investigated the extent of any cross-sectional variation in the quality and timeliness of disclosure by US banks. The results indicated that the announcement of formal supervisory actions caused, on average a 5%

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[39] Wallace et al. (1994) noted that none of the previous disclosure studies (except Malone et al. (1993) on the oil and gas industry) adopted an industry-specific focus.

decrease in banks' share prices. The authors suggested that the variation in the quality and timeliness of disclosure by US banks explains much of the variation in the market reaction. The authors also suggested that the allocation of financial resources in banking sector could be improved by enhanced disclosure.

Spiegel and Yamori (2004) investigated the degree of disclosure existing among small Japanese credit associations (known as Shinkin Banks). In particular, the study examined the impact of four potential determinants, namely: size of bank, leverage, adverse news, and market structure, on disclosure levels in the 1996 and 1997 financial statements. The authors report several important findings. First, banks with more serious bad loan problems are less likely to choose to voluntarily disclose information. Second, there is a positive relationship between size of bank and the extent of disclosure. Third, banks with more leverage are less likely to disclose information voluntarily. Fourth, market forces, as measured by the intensity of local competition, did not force banks to disclose more information in 1996, although it did in 1997. Finally, this study generally demonstrated that financially weak banks are less likely to voluntarily disclose information. The authors therefore suggested that there might be a need for the development of some mandatory disclosure requirements.

3.10.1.3.2 Financial Disclosures in the Banking Sector: Evidence from Developing Countries

Mostafa (1994) evaluated the level of disclosure and the degree of compliance with IAS 30 in the annual reports of Kuwaiti banks. The study also investigated whether there are significant differences between Kuwaiti banks in terms of the level of disclosure. To meet these objectives, the author conducted a disclosure index consisting of 117 information items (based on IAS 30). The results of study revealed that: first, the extent of financial disclosure in Kuwaiti banks' financial statements was 57%; second, there are significant differences regarding the level of disclosure in the annual reports between the Kuwaiti banks; and third, that for 55.6% of the sample (65 items) significant differences exist between Kuwaiti banks' disclosure practices and the requirements of IAS 30. On this basis, the author concluded that Kuwaiti banks' compliance with the requirements of IAS 30 is less than average.

A later study by Al-Bastaki (1997) evaluated the extent of disclosures in the annual reports of Bahraini banks, their association with company size, leverage, profitability, and listing status. The 1994 annual reports of 20 banks companies operating in Bahrain were employed as the sample. A disclosure index comprising 78 information items was composed by the author following a review of disclosure index studies, and banks' annual reports. The results of the study revealed that the level of disclosure in corporate annual reports in the banks incorporated in Bahrain is low (41%). The findings of this study also revealed that there was a positive association between the level of disclosure in corporate annual reports and size of bank. In contrast, leverage, profitability, and listing status were found negatively associated with the disclosure levels.

Once these early analyses had been published, there was a brief lull in the publication of studies regarding bank disclosures in developing countries but within a few years a vast literature on the topic emerged. The first of these studies was by Hossain (2000) who investigated the extent of overall disclosures by banking companies in Bangladesh and the influence of bank size, profitability, and audit firm. The study covered 25 banks, from both the public and private sector, operating in Bangladesh. A total of 61 items of information, both voluntary and mandatory, were included in the disclosure index, while the approach to scoring items was dichotomous. A questionnaire survey was also employed, to solicit views of three target user groups: shareholders; chartered accountants; and bank executives and directors.

The results indicated that the overall disclosure level was 86%. In addition, regression results demonstrated that size and profitability of banks are statistically significant in determining disclosure levels. The perceptions of the user groups indicated that the balance sheet was ranked the most important section of the annual report, followed by the income statement. Government (i.e. the Ministry of Finance), Bangladesh Bank and banks' shareholders were considered by the user groups to be the main users of banks' annual reports. The results also indicated that annual reports are the most important source of information for shareholders, followed by advice from friends, while communication with management was ranked lowest. 62% of respondents thought that the information in annual reports was adequate, while 70% believed that it was reliable. Regarding the basis of the preparation of bank annual reports, the respondents were in favour of legal compulsion (79% supported this suggestion), while the notion of basing the documents on the needs of users was ranked second with only 14% support. Finally, the overall consensus of users regarding the importance of the 61 chosen items was 83.6%; a high consensus existed between the chartered accountants and the bank executives and directors group (95% of responses were consistent), followed by shareholders and bank executives (90%) and shareholders and chartered accountants (87%).

A second Kuwaiti based study in 2002, by Alhajraf (2002) empirically investigated disclosure practices in the financial statements of Kuwaiti banks in the light of IAS 30, as well as examining financial statement users' understanding and awareness of the disclosure concept. The author used a disclosure index similar to Mostafa's (1994) to measure disclosure practices in Kuwaiti banks; a self-administered questionnaire was also employed to obtain financial statement users' opinions regarding the disclosures in the financial statements. Second, important findings emerged from the analysis. First, the extent of financial disclosure in Kuwaiti banks' financial statements was 64%. Second, there are significant differences across user-groups concerning the view that investors are advocates for more disclosure. Third, there are significant differences between user-groups regarding the suggestion that Central Banks favour more disclosure. Fourth, the level of disclosure within Kuwaiti banks' financial statements is improving (compared with Mostafa's earlier study), yet it still, the author argues, needs to be improved to meet the requirements of IAS 30. Finally, while the financial statement users value the disclosure in the financial statements, much more information is needed so that the reports can fully meet the needs of individual users.

Chipalkatti (2002) explored the association between the level of disclosure in the annual reports of 17 Indian banks and certain firm-specific characteristics (size of bank, leverage, profitability and ownership structure), using a disclosure index consisting of 90 information items (based on the Basel Committee's recommendations and IAS 30). The findings revealed that there was a strong link between the level of disclosure and leverage whereby banks with lower levels of leverage provided significantly more disclosure. The results also demonstrated that there was a positive relationship between the level of disclosure and bank size.

Lin and Chen (2004) examined the level of disclosure in the banking industry in Taiwan, and analysing the association between corporate governance and disclosure levels using the data provided by listed commercial banks. The study's findings reveal that the level of disclosure, as measured by the number of lines allocated to each mandatory disclosure item, in state-owned banks is significantly higher than in family-owned banks. However, the level of disclosure measured by those items that could not be assessed by line-counting (e.g. items disclosed in tabular form, such as in the balance sheet, income statement and the statement of capital adequacy) revealed no significant differences between state-owned and family-owned banks. In addition, for state-owned banks, board size (measured by the number of directors) has significantly positively associated with the level of disclosure measured by number of lines. For family-owned banks, neither the ownership structure nor the board structure bore significant influence on the level of disclosure.

A second Bangladesh based study by Haque and Islam (2005) examined the degree of compliance with IAS 30 by the main banks in Bangladesh and investigated whether any significant differences exist in the level of compliance with IAS 30 between Publicly Traded (private) and Nationalised banks. The sample consisted of 2 nationalised banks, 5 private banks and 2 foreign banks. The findings revealed that Bangladeshi banks follow the IAS 30 requirements as far as is possible, in other words, private banks' compliance with IASs have improved significantly, related to the foreign banks, whereas the nationalised banks were still trying to improve in this regard. A Chi Square test revealed that there were no significant differences regarding compliance with IAS 30 between the publicly- traded and nationalized banks.

Abulkarim (2005) compared the financial reporting practices of Libyan and Malaysian banks. The purpose of the study was to examine the extent of corporate disclosure in the financial statements of banks and to investigate the degree of compliance with legal requirements in two countries. To facilitate this comparison, two banks were chosen: the Bank of Commerce and Development in Libya and the Malayan Banking Berhad in Malaysia, in both cases for a period of 4 years from 1997 to 2000. The findings revealed that levels of corporate disclosure in both banks' financial reports are low in terms of the common index. In the case of Malaysian Bank, the level of corporate disclosure in financial reports was 38%, 41%, 39% and 41% from 1997 to 2000, respectively. The author suggests that these low percentages reflect the lack of an accounting standard for banking: the Malaysian Accounting Standards Board does not adopt IAS 30. The levels of disclosures in the financial reports of the Libyan bank were even lower, measuring around 23% in each of the four years. The author again surmises that these figures reflect the absence of local and international accounting standards.

In terms of the degree of compliance with mandatory disclosure, the results of the study indicated that the Malaysian Bank's extent of compliance with mandatory disclosure requirements was about 64% in 2000 and 54% in 1999. For the Libyan Bank, the degree of compliance with mandatory disclosure requirements was very high (80%).

The author suggests that this high percentage reflects the absence of local and international accounting standards as well as the limited nature of the disclosure requirements applied by the Libyan regulatory bodies. Finally, in terms of voluntary disclosures, the findings of the study revealed that there was a wide fluctuation in the percentage of information items disclosed voluntarily by the Malaysian Bank from year to year (the figure was 33%, 40%, 17% and 32% for 1997, 1998, 1999 and 2000 respectively). In the case of the Libyan Bank, the extent of voluntary disclosure was high compared with the Malaysian institution, and grew over the sample period; the figures were reported 23%, 30%, 43% and 43% for the years 1997, 1998, 1999 and 2000 respectively.

A third Bangladesh based study by Uddin et al. (2006) assessed the disclosure practices of private commercial banks and insurance companies in Bangladesh, and examined whether there are any differences in disclosure practices between private commercial banks and insurance companies. The study also evaluated the level of Bangladesh private commercial banks and insurance companies' compliance with legal disclosure requirements and non-regulatory practices (voluntary items). The sample comprised the 2001 and 2004 annual reports of ten private commercial banks and ten insurance companies listed on the Dhaka Stock Exchange. The results indicated that although private commercial banks did not comply with all the mandatory disclosure in 2001, they did by 2004. In contrast, insurance companies failed to comply with the mandatory disclosure requirements in either of the two years. The study also reported that private commercial banks and insurance companies do not disclose all the voluntary disclosure items selected for study in the annual reports in either year. With regard to differences between the commercial banks and insurance companies, the findings revealed that the extent of mandatory disclosure by commercial banks and insurance companies were similar, but there was more reluctance amongst insurance companies than amongst banks to provide voluntary disclosure.

Ehtawish (2006) analysed the effectiveness of Libyan banking regulation and supervision by identifying the major factors affecting development in the Libyan banking system. To achieve this objective, semi-structured interviews were employed, as was analysis of annual reports and archival records. The findings suggested that existing regulation and supervision systems in the Libyan banking sector are inefficient. In particular, government control of the banking market, inadequate information technology and the lack of qualified personnel were found to the major problems. The study also indicated the existence of a clear conflict in regulators and supervisory objectives, which have caused damage to banking market stability and led to many bad loans. In addition, there was a general weakness in bank-licensing processes, which has allowed some unsafe and unsound banks to emerge. With regard to prudential financial supervision requirements, the author found that the method of calculating capital adequacy is unreliable primarily as a consequence of (i) imprecise data and weaknesses within commercial banks accounting systems; as well as (ii) deficiencies in credit risk management and loan loss provisions. The author also concluded that the Libyan Central Bank as the regulatory and supervisory authority does not have sufficient independence from the Libyan Government, which influences the achievement of its responsibilities. Finally, the author concluded that the timeliness and level of disclosure in annual reports of Libyan commercial banks is rigorously lack.

A recent Indian-based study by Hossain and Reaz (2007) investigated the extent of voluntary disclosure in Indian banks' annual reports and the influence of firm-specific characteristics (size, age, assets-in-place, board composition, multiple exchange listing, and complexity of business). The sample used the 2002-3 annual reports for 38 banks listed on the Bombay and National Stock Exchanges and an unweighted disclosure index consisting of 65 voluntary items. The findings revealed that the overall level of voluntary disclosure is 35% (with an inter-item range of 20% to 55%). The study also indicated that public banks disclose more voluntary information (38.6%) than private banks (31%). With regard to the association between specific explanatory variables and the extent of voluntary disclosure, the results showed that only size and assets-in-place have a significant relationship with voluntary disclosure level; age, board composition, multiple exchange listing and complexity of business are not significant in explaining the level of voluntary disclosure.

Finally, a study by Hossain (2008) investigated disclosure practices in the annual reports of Indian banks and the impact on these certain firm-specific characteristics (age, size, profitability, complexity of business, assets-in-place, board composition, and market discipline). The study employed an unweighted disclosure index with 184 items of information (83 mandatory and 101 voluntary). The sample employed was 38 public and private banks listed on the Bombay Stock Exchange and the National Stock Exchange on 30th June 2004 and annual reports for the year 2002-03 were collected by the author to carry out the investigation. The findings revealed that, on average, Indian banks provide 60% of all possible disclosures, of which 88% are mandatory and 25% voluntary items. According to author, this evidence may reflect the fact that the Indian banking sector has been very closely monitored by regulators and, consequently, disclosure practices (especially at the mandatory level) reveal a high degree of compliance. The results also indicate that size, profitability, board composition, and market discipline all have a significant impact on the variation in the extent of disclosure.

3.10.1.3.3 Studies Comparing Banking Sector Disclosures across Developed and Developing Countries

An early study by Kahl and Belkaoui (1981) investigated the disclosure adequacy of banks in an international setting. The study analysed the overall extent of disclosure by 70 banks located in 18 countries (Australia, Austria, Brazil, Canada, Denmark, Finland, France, Germany, Holland, Italy, Japan, Norway, Singapore, Spain, Sweden, UK, US), and examined the relationship between the extent of disclosure and the size of each bank. The authors constructed a weighted disclosure index consisting of 30 information items. The key hypothesis tested was that US banks would be leaders in terms of disclosure adequacy, followed by those using the British model, and then banks adopting the Continental model. The results of the study suggested that the extent and adequacy of disclosure differs among the countries examined with a positive correlation existing between bank size and extent of disclosure. Finally, the evidence regarding 10 of the 30 information items examined in the survey to measure disclosure adequacy indicated a low level of consensus between preparers and users.

Two decades later, Baumann and Nier (2004) investigated empirically the relationship between the volatility of a bank's stock price and the amount of information the bank discloses to the market. In other words, this study was an attempt to examine whether banks that disclose a lot of information might have lower stock volatility than do banks that disclose little information. The sample for the study was 600 banks across 31 countries[40] over the period 1993 to 2000. To measure disclosure, the authors constructed a disclosure index consisting of 17 items of information[41]. In addition, to identify the items of bank disclosure that are most useful for banks and most beneficial for financial markets. The findings of the study revealed that a negative relationship between disclosure level and share price volatility (when size and risk are controlled for). The authors suggested, therefore, that disclosures might be useful for both investors and banks if lower stock volatility leads to decreases in the cost of capital and increases in the value of stock-based compensation. In addition, disclosure may be useful for regulators that use market indicators of bank performance alongside other supervisory information.

A recent study by Tadesse (2006) examined the influence of disclosure regulations intended to enhance banks' disclosure quality, including the intensity, informativeness, timeliness, and credibility of these regarding the probability of suffering a systemic banking crisis. The study focused on 49 countries[42] over the period 1990 to 1997, and investigated the effect of overall bank disclosure, -which mirrors the regulations meant to enhance the quality of bank reports as well as the level of private acquisition of

[40] These countries are Argentina, Australia, Austria, Belgium, Brazil, Canada, Chile, Finland, France, Germany, Hong Kong, Indonesia, Ireland, Israel, Italy, Japan, Republic of Korea, Malaysia, Netherlands, Norway, Poland, Portugal, Singapore, Spain, Sweden, Switzerland, Taiwan, Thailand, Turkey, United Kingdom and United States.
[41] The construction of the index has relied on a large extent on the Centre for International Financial Analysis Research (CIFAR) index of transparency, introduced by La Porta et al. (1998).
[42] These countries are Australia, Austria, Bahrain, Belgium, Botswana, Burundi, Canada, Chile, Denmark, Egypt, El Salvador, France, Germany, Ghana, Greece, Guatemala, Honduras, Ireland, Israel, Lesotho, Nepal, Pakistan, Philippines, Portugal, Singapore, Switzerland, United Kingdom, United States, Zambia, Finland, Guyana, India, Indonesia, Italy, Jamaica, Japan, Jordan, Kenya, Korea, Malaysia, Mauritania, Mexico, Nigeria, Peru, Sri Lanka, Sweden, Thailand, Turkey and Venezuela.

information-, and diffusion of bank information. The findings of the study revealed that mandated disclosure requirements are strongly related to banking system stability. Specifically, banking systems are more likely to be stable (and the possibility of systemic banking crises lower) in nations with regulations that require: (i) more comprehensive; (ii) more informative; (iii) more timely; and (iv) more credible bank disclosures. In addition, the influence of greater banking disclosures and transparency were found to be substantive.

3.10.2 Studies of Users' and Preparers' Perceptions

3.10.2.1 Studies of Preparers' Perceptions

Yaftian and Mirshekary (2005) argue that the literature on perceptions[43] and views of annual report users has developed over the last three decades or more; in contrast the literature on the attitudes and perceptions of preparers of annual reports remains thinner, particularly in developing countries. In fact, only four studies (Abu-Nassar and Rutherford, 1995; Ho and Wong, 2003; Yaftian and Mirshekary, 2005; Stainbank and Peebles, 2006) appear to have made an attempt to explore the perceptions and attitudes of preparers of annual reports in emerging nations. Against this backdrop, this section of the chapter reviews previous studies that have examined preparers' views about disclosures in annual reports.

3.10.2.1.1 Studies in Developed Countries

Chandra (1974) examined the extent of consensus[44] between: (i) public accountants (as preparers or users of accounting information); and (ii) security analysts (as user of

[43] Collin's dictionary defines perception as "the process by which an organism detects and interprets information from the external world by means of the sensory receptors."
[44] Collin's dictionary defines consensus as "general or widespread agreement".

accounting information) about the value of information included in corporate annual reports in the United States. To achieve this goal, the author conducted a questionnaire survey relating to 58 items of information. The respondents (600 public accountants and 400 security analysts) were asked to evaluate the significance of the information items in equity their investment decisions on a five-point scale. The findings revealed that there was no consensus between accountants and financial analysts in terms of the information items' role as factors in equity investment decisions. The paper suggested several possible explanations for the lack of consensus: (i) A lack of communication between the users and preparers of the information; (ii) A time lag between what the users requirements and the preparers' delivery; and (iii) Accountants' tendency to comply with the traditional order, instead of experimenting with new ideas and methods of identifying users changing information needs. Finally, the study suggests that accountants, as preparer of accounting information, consider Generally Accepted Accounting Principles (GAAP) to produce useful information, yet no consensus was found between accountants and security analysts concerning the usefulness of information therefrom.

Chandra and Greesball (1977) investigated the needs of information of managers (who were divided into preparers of annual reports and users) and security analysts in an attempt to explain management's reluctance to disclose on 'value of information' grounds. The findings of study revealed that managers as preparers differed significantly in terms of the perceived value of the information items from security analysts for 46 out of the 58 items, while managers as users differed from security analysts for 41 items. In contrast, managers as preparers and as users differed from each other for only 22 items. The latter result revealed that managers as preparers did not consider the information more valuable than they did as users.

3.10.2.1.2 Studies in Developing Countries

Abu-Nassar and Rutherford (1995) investigated the perceptions, attitudes and opinions of preparers of external financial reports in Jordan. A questionnaire survey was employed to gauge the attitude of: boards of directors; financial directors; chairmen; chief accountants; and company accountants. A questionnaire survey was then distributed to all 112 companies listed on the Amman Financial Market in 1991[45]. The findings of the study revealed five main results. First, preparer groups considered the directors and management of the company to be the most important users of annual reports, followed by individual and institutional shareholders. Second, the finance director was regarded as the most important influence on the preparation of financial reports, followed by company chairman, external auditors and chief accountants respectively. Third, the most important factor influencing accounting policy choice and disclosure was found to be the Companies Act followed by proposals from auditors and tax authorities. Fourth, stability (and improvement) in share price was considered to be a valuable benefit of voluntary disclosure, while easier access to finance was regarded as being of less importance. Finally, the expenses involved in preparing information were considered to be the most significant cost of disclosure, whilst competitive disadvantage and disadvantage in collective bargaining processes were regarded as being of less importance.

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[45] The response rate was 74% of sample

Several years later, an attempt was made by Ho and Wong (2003) to explore the perceptions of preparers of annual reports of Hong Kong listed companies about a variety of reporting and disclosure issues. A mailed questionnaire survey was employed to measure the opinions of 610 preparer groups, in this case, finance directors and chief finance officers (CFOs)[46]. The results revealed that institutional shareholders were perceived as the most important users of Hong Kong companies' annual reports, followed by bankers and creditors, management/directors, and individual shareholders, while academics and employees and labour unions were considered to be significantly less important. The findings also indicated that the statement "comply with all disclosure requirements stipulated by regulatory authorities and offer additional information that is considered to be relevant or useful to analysts and investors" was identified by preparer groups as being an accurate description of the disclosure strategy or policy of their company.

With regard to internal participants affecting corporate disclosure policies, the respondents ranked the CFOs or finance directors as the most influential group, followed by CEOs and board chairmen, while the board of directors were perceived as having only moderate influence. In terms of major external bodies, the Hong Kong Exchange (HKEx) was perceived to have the most important influence on the corporate disclosure policy, followed by the Companies Ordinance[47]. Finally, preparer groups believed that current disclosure practices were ineffective, and suggested that improvement in market efficiency could be achieved by more voluntary disclosures and improving the process and quality of communication with external users.

[46] The response rate was 16 per cent.
[47] Academics were regarded as the external body exerting the smallest influence on disclosure policies.

Yaftian and Mirshekary (2005) investigated the perceptions, attitudes and opinions of preparers of accounts about disclosure practices in corporate financial reports in Iran. A questionnaire survey was employed to gauge the attitude of preparers of financial reports, in this case: boards of directors, financial directors, chairmen, chief accountants, and company accountants. A questionnaire survey was then distributed to 250 companies[48]. The findings of the study revealed that the most important user group was shareholders, while the most influential group of preparers was financial managers. In addition, the most important factor influencing accounting policy choice and disclosure practices was found to be the auditor's report, with a lack of both knowledge of external users' needs, plus reporting standards and accepted accounting principles being seen as the most important restrictions on disclosure extent in annual reports. Finally, the mean value of the preparers' ratings suggested that the balance sheet, accounting policy, and income statement were the first, second, and third most important parts of the annual report respectively.

An investment-based perspective was adopted by Stainbank and Peebles (2006) who looked at investigated the relative importance of sources of financial information used by preparers and users when making hold, buy or sell decisions. To achieve this aim, 172 questionnaires were posted in 2000 to two groups, one representing the preparers of annual reports (financial managers) and the other representing the users of annual reports (institutional investors)[49]. The findings of the study revealed that the preparer groups ranked stockbroker advice first, whereas user groups considered communication

[48] The response rate was 20.8% of sample.
[49] A response rate of 38% was obtained for the preparer groups and a response rate of 17% was obtained for the user groups.

with management to be the most important source of information. With regard to the perceived importance of information obtained through company announcements and disclosures, the preparer groups regarded the annual report as the most important source of information, while the user groups ranked the preliminary announcements of the company first. Both groups were asked to indicate how thoroughly they read each component of annual report and the preparers ranked the income statement first in this regard, while the user groups read the cash flow statement the most thoroughly. With regard to the qualitative criteria used for assessing the usefulness of accounting practices, the preparers emphasised fair presentation, understandability and relevance, while the user groups preferred comparability, faithful representation and relevance. Finally, regarding the perceived importance of standard-setting and regulation of disclosure, the preparer groups ranked 'to prevent reporting abuses such as the manipulation of numbers' as being the most important, whereas the user groups ranked the reason 'to ensure that management does not suppress unfavourable information' first.

3.10.2.2 Studies of the Users' Perceptions

The main purpose of this section is to review previous studies that have examined users' perceptions, demands and needs regarding information in corporate annual reports. As Wolk et al. (1991, p.148) observed, "Emphasis on users and their needs first appears in the literature in the 1950s, an amazingly recent time in light of the long history of accounting". A vast number of studies have focused on users' views about the level and quality of information disclosed in financial statements (i.e. Baker and Haslem 1973; Nasser et al. 2003; Al-Razeen and Karbhari, 2004; and Mirshekary and

Saudagaran, 2005, etc.). Notwithstanding the large number of studies that have been carried out, Mirshekary and Saudagaran (2005) indicate that this literature concentrates largely on developed countries, with relatively few studies being conducted into the perceptions and attitudes of user groups in developing countries (Naser et al. 2003; Ibrahim and Kim 1994). However, given that the focus of the present study is Libya, the developing country literature is reviewed thoroughly here as well. This review will concentrate on the role of financial reports as a vehicle of disclosure, on the basis that these are focus of the empirical analysis of disclosure level and quality in Libyan banks.

3.10.2.2.1 Studies in Developed Countries

Baker and Haslem (1973) conducted one of the first major studies of user perceptions, focusing on the needs of individual investors in common stock, in Washington D.C. The authors carried out a questionnaire survey to elicit perceptions of individual investors about the relative importance of 34 factors used in investment analysis, as well as socio-economic variables. The results revealed that the future economic outlook of the company, quality of management, and future economic outlook of the industry were regarded as the three most important factors, whereas the size of the company and the ease with which the assets could be sold in the event of failure were considered to be the least important. The respondents were also asked to indicate the main sources of information that they rely on to make investment decisions. The findings indicated that stockbrokers and advisory services were regarded as the most significant sources of information, while financial statements were considered to be the beast important. As regards other information items disclosed by companies, the results showed that individual investors attach a great importance to information about the future expectations of the company whereas they attach less importance to news relating to dividends.

Lee and Tweedie (1975a) examined the extent to which shareholders use financial reports as sources of information and whether or not they understand the contents. To achieve this aim, a questionnaire survey was conducted to elicit investors' perceptions about usage of the financial reports issued by one small public company in the UK. The findings revealed that individual investors regard financial press reports as more significant sources of information than annual reports for investment decision making. In terms of sections of financial reports, the individual investors who lacked an accounting background considered the chairman's statement to be the most useful part for investment decisions. In contrast, the investors who did have some knowledge of accounting regarded the profit and loss account and balance sheet as the most useful[50].

Firth (1978) measured the information needs of wider group UK corporate reports users. The user-groups considered in the study are financial directors, auditors, financial analysts, and loan officers; these parties were the recipients of a questionnaire survey focusing on 75 information items that might expected to be important to them. The results of the study revealed that the perceptions of financial analysts and bank loan officers were identical in terms of the significance of 61 information items, as were the perceptions of finance directors and auditors. However, the perceptions of finance directors and loan officers were significantly different for 49 items of information, while the auditors and financial analysts differed on 46 items of information. Perhaps most importantly, the results of this study highlighted the

[50] Interim reports were regarded as a moderately significant source of information.

considerable degree of disagreement between the providers of corporate annual reports (i.e. the finance directors and auditors) and user-groups (i.e. financial analysts and bank loan officers).

Anderson (1981) provided the first evidence from outside the US and UK by examining the usefulness of annual reports to institutional investors in Australia. A mail questionnaire was forwarded to a sample of 300 institutional investors[51]. The respondents were asked to indicate their investment objectives, main information sources used, perceived importance of sections of annual reports, and their desirable additional information. The results of this study revealed that an equal combination of dividend and capital gains were considered to be the most important investment objective. With regard to the information sources employed, the respondents ranked annual reports as the most significant sources of information, followed by stockbroker's advice and company visits. In terms of the important sections of the annual report, the study suggests that the balance sheet, income statement, notes to the accounts and chairman's address are the most widely read sections; the income statement, balance sheet and notes to the accounts were ranked by institutional investors as the most significant sections in making their investment decisions. However, they also require additional information such as the current value of long-term assets and investments, information on future prospects, company products and management audit.

Retaining an Australian focus, McNally et al. (1982) examined the perceptions of two groups of external decision-makers about the disclosure of selected information items in New Zealand. The user-groups considered in the study were financial editors and

[51] The response rate was 63% of sample.

Stock Exchange members (stockbrokers), who were sent a questionnaire regarding 41 voluntary information items. The authors noted three important results. First, two groups of external users -stockbrokers and financial editors- perceived the voluntary disclosure of an extensive variety of items of information to be significant. Whilst these two groups attributed diverse significance to the disclosure of specific items, few of the differences were statistically significant. Second, there was a substantial difference between the level of disclosure practised by firms and the level of disclosure perceived by external users to be desirable. This difference was significant for the majority of the 41 items in the survey, but was most obvious for those items that were not released by any firm but which were perceived by users to be amongst the most important. Third, there was a degree of agreement amongst the external users studied in the US, UK and New Zealand about the relative importance of disclosing certain items. However, the level of disclosure by firms did not correspond to the user preferences.

An Australian study, by Courtis (1982) investigated the perceptions of private shareholders regarding their use of annual reports when making investment decisions. The study found that private shareholders consider stockbrokers' advice to be the most important source of information, followed by newspapers and annual reports. With regard to specific parts of annual reports, the results indicated that the chairman's address is the most readable part, followed by the profit and loss account and the directors' report. Shareholders considered the profit and loss account to be the most significant part of the report for investment decision-making, followed by the balance sheet and chairman's address; the auditor's report, statistical data and notes to the accounts were regarded as the least significant parts, in this context.

Anderson and Epstein (1995) attempted to examine perceptions and opinions of individual investors about usage of annual reports of four large Australian firms. They used a questionnaire survey as the research method to elicit the perceptions of individual investors about the usage of annual reports for investment decision-making. The findings indicated that individual investors ordered stockbrokers' advice, financial newspapers and magazines, and annual reports respectively as the most important foundations for investment decision-making; although last in this list, annual reports were still viewed as having moderate significance as a source of information. In terms of specific sections of the annual reports, the results suggested that the directors' report is the most comprehensively read section of the annual report by individual investors, followed by the income statement. However, the same respondents considered the income statement to be more useful for investment decision-making.

3.10.2.2.2 Studies in Developing Countries

One of the first detailed examinations of users' views in developing country context was provided by Wallace (1988) who examined the perceptions and views of users about information disclosed in corporate financial statements in Nigeria. A questionnaire consisting of 109 information items was developed and then sent to 1200 user-groups. The groups targeted were: chartered accountants (auditors or preparers of financial statements), investors, senior civil servants, managers, financial analysts, and professionals. Respondents were asked to indicate on a five-point Likert scale the level of significance they attached to each item of information for decision-making purposes. The findings of the study revealed a high level of consensus between civil servants and financial analysts (98%), civil servants and managers (92%), financial analysts and managers (93%), managers and investors (96%) and other professional and investors (96%). In contrast, there was a low level of consensus between accountants and investors (61%), accountants and managers (61%) and accountants and other professionals (49%)[52]. Finally, the author compared results of this study with related analyses across the developed world and found that the perceptions of Nigerian user-groups differ from those in various other developed countries in terms of the perceived importance of particular information items.

Solas and Ibrahim (1992) provided some of the first evidence on user perceptions in the Meddle-East. The aim of their cross-study was to examine perceptions and attitudes of users of financial reports about the usefulness and reliability of various financial information items sources for investment making-decisions. Questionnaires comprising of 23 information items were sent to 89 institutional and individual investors in two countries, Jordan and Kuwait, to elicit their perceptions and views. The findings revealed significant diversity in the perceived usefulness (reliability) of 10 of the 23 information items between investors in both countries.

Shifting the focus to Egypt, Ibrahim and Kim (1994) examined the perceptions of four user-groups about the significance of disclosure regarding 42 selected information items. In particular, the study examined the level of consensus about financial disclosure preferences among the four groups[53]. These individuals were then asked, via a questionnaire, to indicate the importance they attached to each item. The findings

[52] The findings of the study also revealed that the perceived needs of Nigerian user-groups are not entirely consistent with those of International Accounting Standards Board members.
[53] The users-groups who were sent questionnaire comprised 77 managers, 79 investors, 75 financial analysts, and 80 accountants.

revealed that there is a moderate degree of consensus between accountants and managers (67%) and between accountants and financial analysts (64%) whereas there is a lower level of agreement between accountants and investors (55%), between financial analysts and managers (45%), between financial analysts and investors (26%) and between investors and managers (45%) concerning the perceived significance of 42 information items. However, when the data were pooled for the all four user-groups the degree of consensus averaged 57%.

Staying with the Middle-East, Abu-Nassar and Rutherford (1996) examined the opinions of external user-groups regarding the usage of annual financial reports in Jordan. As in most of the previous studies, a questionnaire survey was conducted to elicit the perceptions of 5 user-groups, in this case, individual shareholders, institutional shareholders, bank loan officers, stockbrokers and academics. The findings of the study suggested that, except for bank loan officers, the respondents considered annual reports to be the most significant source of information (followed by visits to firms and communication with management). Most user-groups indicated a moderate level of dependence on annual financial reports for making their decisions; however, the results also revealed that most user-groups read few of the reports and spend little time on each one. The main reason for this result was a perceived lack of credibility, whereas a lack of understanding was regarded as the least important reason[54]. With regard to users' understanding of the content of annual reports, the respondents rated the auditors' report as the most easily comprehensible section. Although, the remaining seven sections were all considered to be easy to understand. Relatedly, the respondents rated

[54] The income statement and balance sheet were found to be the most widely read sections of an annual report by user-groups.

the relevance of all eight sections as higher than their reliability. More generally, the respondents considered the amount of information disclosed in Jordanian annual reports to be inadequate, and complained about lack of comparability and consistency across firms, even in a single industry.

Almahmoud (2000) investigated the perceptions and opinions of investors (in this case, institutional investors, individual investors, and financial analysts) about the usefulness of the annual financial report for investment decisions-making. The author analysed a questionnaire survey sent to 680 investors in the Saudi Stock Market; the findings revealed that the annual report is regarded by investors as the most significant source of information for investment decisions[55]. The author found some significant differences among the three groups of investors, in particular, the financial analysts rated the interim report as more significant than the annual report. Whilst the author found some unique characteristics in the individual investors understanding of information in the annual report, in general, all three groups appeared to perceive and understand the content satisfactorily.

A recent study by Rahman (2001) expanded the research focus to Malaysia, with the views of the nation's accountants being sought. A questionnaire survey was again used to elicit perceptions and opinions regarding the main sources of information, the purpose of the annual reports and the important sections therein. The findings indicated that the main role of annual reports for accountants related to providing advice for their clients. The results also suggested that accountants rate advisory services and the

[55] Interim reports and newspapers and business magazines rated as the second and third most significant sources of information respectively.

annual reports as the first and second most important sources of information respectively. Finally, the findings of the study revealed that the profit and loss statement is considered by accountants to be the most important section of the annual report.

A study by Nasser et al. (2003) provided an exploration of the perceptions of various users of financial information in Kuwait. Once again, a questionnaire survey was employed to gauge the opinions of various user-groups, in this case: institutional investors; individual investors; bank loan officers; government officials; financial analysts; academics; auditors; and stock market brokers. The findings of the study found that, first, respondents again regard the annual report as the most important source of information, followed in this case by information obtained directly from the company and specialist advice. Second, the user-groups ranked credibility and timeliness as the most important characteristics of useful corporate information. Third, the respondents confirmed that the annual report does play a useful role when making their investment decisions, evaluating the company's performance and monitoring their investments. Fourth, the respondents indicated that all the main parts of the annual report are trustworthy and easy to understand, but they regard financial statements as the most important section[56]. Fifth, the respondents attached a high degree of importance to all disclosures mandated by IASs, while, finally, the user-groups regarded the full list of voluntary disclosure items presented in the questionnaire as being significant.

[56] The respondents suggested that speedier publication would be helpful with a period of no more than 30 days, desired.

Naser and Nuseibeh (2003) examined the perceptions of various users about the usefulness of the annual reports of Saudi joint stock companies. via a questionnaire survey was sent to 120 individual investors, 480 institutional investors, 80 financial analysts, 100 bank credit officers and 80 government representatives[57]. The findings of the study revealed that Saudi users primarily rely on information made available by firms, but they regard the annual reports as the most significant source of information for decision-making. In addition, the respondents also indicated that they regard the income statement as the most significant section of annual report, although the auditor's report is the most clearly understood.

The following year, Al-Razeen and Karbhari (2004) provided more detailed evidence regarding the perceptions of users of annual reports in Saudi Arabia. Again questionnaire survey was administered, in this case to 303 users in five groups: individual investors; institutional investors; creditors; government officials; and financial analysts. The respondents were asked to indicate the importance of the seven different sources of information contained in corporate annual reports, namely: the balance sheet; the income statement; the statement of retained earnings; cash flow statements; the notes to the financial statements; the board of directors' report; and the auditors' report. The results revealed that the balance sheet and the income statement are regarded as the most important sections of the annual report by most of the Saudi users' groups. The cash flow statement was found to be the least significant.

[57] The response rate was 50% of sample.

Mashat et al. (2005) explored the perceptions of report users about the basic characteristics of the corporate reporting and disclosure practices extent in Libyan business organisations in 2000. The user-groups considered in this study were: academic accountants; financial managers; government officials; bank credit officers; and external auditors. A personally administered questionnaire was used to collect the perceptions of 703 corporate reports users. The results of the study revealed that the respondents attached the highest importance to the proposal that the main purpose of corporate disclosure is to provide information to financial organisations[58] (followed by provision of information to managers to help them in managing their business). The findings also found that the provision of information to Tax Authorities also received a high ranking (followed by provision of information to owners on the use of their funds and the legality of the uses). In additions, the same high ranking was attached to the purpose of the provision of information to investors to assist with their investment decisions[59].

Mirshekary and Saudagaran (2005) provided the first detailed evidence about attitudes, perceptions and characteristics of financial statement user-groups in Iran. The main purpose of the study was to investigate the opinions of users regarding corporate annual reports and to measure the degree of consensus among them. The seven user-groups considered in the study were: bank loan officers; academics; stockbrokers; bank investment officers; institutional investors; auditors; and tax officers. The results indicated that consistent with the majority of studies in other developing countries,

[58] The idea that financial information assists in the negotiation of financial facilities was expected to be supported by all the groups.
[59] The participants considered this aspect as a decision-usefulness objective for corporate disclosure.

most users in Iran regard the annual report as the most important source of information for making economic decisions, depending more heavily on them than on advice from stockbrokers and acquaintances or on tips and rumours. The authors also concluded that the user-groups ranked the income statement, the auditors' report, and the balance sheet respectively as the three most important parts of annual report. All user-groups regarded the delay in publishing the annual reports, the lack of reliability in information, and the absence of adequate information as factors restricting the effective usage of annual reports. In addition, there was a weak level of consensus among bank loan officers, tax officers, and auditor groups in terms of the importance of several individual information items. Finally, the results indicated that most of users of corporate financial statements in Iran see a delay in publishing annual reports, lack of trust of the information, and lack of adequate disclosure as major concerns.

Finally, two recent studies appear to confirm the broad picture provided by the earlier analyses of users' views in developing countries. The main purpose of Chen and Hsu's (2005) study was to examine perceptions of individual investors about the usefulness of the annual report and other information sources in Hong Kong. A questionnaire was sent to 1,062 individual investors selected by the share registrars from seven Hong Kong companies including conglomerate, technological, and traditional non-diversified organisations. The results indicated four significant findings. First, although individual investors in Hong Kong use annual reports for investment decisions, they consider annual reports as being less useful than other alternative information sources such as: historical information on stock prices; dividends and earnings; company related news; advice from analysts; and newspapers and magazines. Second, relevance and reliability are regarded by individual investors as the two most desirable qualitative characteristics of financial statements. Third, the perceived usefulness of annual reports is influenced not only by investor features such as the education level, investment experience, type of share holding and investment horizon, but also by the type of firms in which they invest. Finally, individual investors in Hong Kong desire additional information, in particular relevant non-financial information, to be disclosed in annual reports to assist them in investment decision-making.

Besides studying actual disclosure practices in Libyan companies' annual reports, Bribesh (2006) also attempted to examine the usefulness of the documents by analysing users' perceptions. As in most of prior studies, a questionnaire survey was conducted to elicit perceptions, in this case those of 7 user-groups: individual shareholders; institutional shareholders; bank credit officers; government employees; chief executives; professional accountants; and academics. The results revealed that users considered annual reports to be as the main source of information, although, credibility and timeliness were also regarded as important. Almost all the respondents viewed the financial statements and notes to the accounts to be relatively easy to understand, although, professional accountants and institutional investors displayed the highest level of understanding of the content. Finally, the respondents considered the profit and loss statement and the balance sheet to be the most important sections of annual reports[60].

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[60] Regarding differences across user groups, the highest numbers of significant differences were reported between academics and professional accountants' user group pairs.

3.11 Summary

This chapter has attempted to outline those elements in the extensive academic literature on annual report disclosures that are most relevant to the present study. In particular, studies conducted in developing countries were reviewed in detail, and the wide range of methods and methodologies employed has been highlighted. The chapter discussed previous studies that examine the level of disclosure in corporate annual reports, the degree of compliance with mandatory disclosure requirements and the views of both users and preparers of the documents. The evidence of previous studies indicates that there is substantive variation in the level of disclosure made by financial and non-financial companies in both developed and developing countries; while many companies comply fully with mandatory disclosure requirements, there are many who achieve only a low level of compliance. In addition, there are companies disclosing more overall (mandatory and voluntary) financial information than others.

One of the obvious patterns in the evidence concerning disclosure practices is the inconsistency, both cross-country and time-period. In this regard, Wallace et al. (1994) attributes observed differences to a number of factors, stating that "The changing features of prior studies, such as the number of firms included in the sample, the type and number of firm characteristics examined, the number of information items that formed the basis of the set of disclosure indices as dependent variables, the different statistical methodologies used to analyse the data and the different settings (i.e., countries) of the study, have jointly or severally contributed to the mixed results from these studies. As a result, an investigation, in other settings, of corporate characteristics that correlate with the extent of disclosure seems justified" (p. 43).

As regards previous examinations of the perceptions of the users of annual reports, the review demonstrated that the companies' annual reports are seen as the key medium for the disclosure of important information. Although other disclosure mechanisms, such as media release, interim reporting, letters to shareholders and employee reports are used by companies, the annual report remains the primary source of information for a variety of user groups across many countries. Nonetheless, all parts of the annual reports are not viewed equally in terms of importance by different user groups. For example, the income statement is the part most favoured by investors, whereas the cash flow statement and balance sheet are the most important for bankers and creditors. Similarly, users of accounting information weigh audit reports, directors' reports, and accounting policies differently. The overall picture that emerges from previous studies is that the users of annual reports are not homogenous in terms of their needs for information about economic entities. In addition, the apparent divergence between actual disclosure and desired disclosure may be the outcome of a reluctance to disclose data that firms consider sensitive. Alternatively, it may reflect a gap between the rapidly changing needs of users for data and the slower development of firm disclosure practices (McNally et al., 1982). As these issues have not seen fully resolved, it is obvious that further studies, such as the present one, may be important in contributing to the debate in a modern setting.

What emerges from this chapter as a whole is that: (i) two research methods dominate in the area (disclosure index and questionnaire survey); and (ii) given the rapid and momentous changes that are occurring in the structure of the financial services industries in Libya (notwithstanding the dramatic events in global financial markets while the thesis was being prepared), there is a need for further, and more current research that focus on reporting in the Libyan banking sector. As this chapter has indicated, only Abulkarim (2005), who compared disclosure practices in Libya and Malaysia (but analysed only one Libyan bank) and Bribesh (2006), who examined Libyan user perceptions and actual disclosure practices across industries, have focused directly on the topic. Moreover, the perceptions of preparers and users of Libyan banks' annual reports have not been included in any previous research. The following chapter of this thesis therefore begins to explain how the current thesis aims to remedy this problem, by setting out the theoretical and methodological issues underpinning the research undertaken and reported later.

Chapter Four
Theoretical Framework

4.1 Introduction

The previous chapter reviewed the literature on accounting disclosure practices and the usefulness of annual reports for making financial and economic decisions in both developed and developing countries. The chapter noted that while many studies on accounting disclosures and the usefulness of the annual report have been carried out in developed countries, a much smaller (but growing) number of investigation into the issues in developing countries have been published. These studies tend to adopt one of two theoretical bases as their underpinning paradigm. This chapter will consider both of these -accountability theory and decision usefulness theory- as potential foundations for exploring and explaining the level of financial disclosure in Libyan banks' annual reports, and draw conclusion as to their suitability.

The next section of this chapter focuses on the definition and role of theory. The accountability and decision usefulness approaches are discussed, together with their limitations, to an attempt to ascertain their suitability as a theoretical framework for the present study. The chapter then discusses decision usefulness in more detail and outlines why this theory is considered to be the most appropriate lens through which the research presented in this thesis is designed and interpreted.

4.2 Theory as a Notion in Accounting

4.2.1 Definition of Theory

Alvesson and Deetz (2000, p. 37) defined theory in social science as "a way of seeing and thinking about the world rather than an abstract representation of it", while Chambers (1972) defined theory almost three decades earlier as "a well-ordered set of statements about classes of things and classes of events which are in some way connected in our experience of them". While these broad applications of the notion are useful, theory, in the particular context of accounting, has been defined by Sterling (1970) as "those substantive propositions that relate accounting measurements to decision models and decision making", while Hendriksen (1982) views accounting theory as "a set of principles that (i) provides a general frame of reference by which broad accounting practice can be evaluated and (ii) guides the development of new practices and procedures". Inspection of the literature suggests that in the social sciences there is a mutual association between theory and empirical research (Bulmer, 1986). In this context, May (1993) underlines the association between theory and research, stating that "For social research to both intellectually develop and to be of use in understanding and explaining the social world, we need theory and theory needs research".

The definitions given above raise the obvious question of the precise role of theory in planning and informing research. This issue is discussed in the next section.

4.2.2 The Role of Theory in Accounting

According to Belkaoui (1987), the role of theory has four dimensions, namely: description, delimitation, generation and integration. In terms of the descriptive role of theory, Belkaoui states that it "consists of using the constructs or concepts and their relationships so as to provide the best explanation of a given phenomena and the forces underlying it" (p.209), while the delimiting role of a theory "Consists of selecting the favourite set of events to be explained and assigning a meaning to the formulated abstractions of the descriptive stage. Constraints on or boundaries around speculation and hunches serve that delimiting purpose" (p.209). With regard to the generative role of a theory, the author argues that it is relative to "the ability to generate a testable hypothesis, which is the main objective of a theory or to provide hunches, notions and ideas from which hypotheses could be developed" (p.209). Finally the integrative role for theory is described by Belkaoui (1987), as "the ability to present a coherent and consisted integration of the various concepts and relations of a theory" (p.209).

One conclusion that could be drawn in the context of theory's role is that presenting framework as the basis for understanding, interpreting and explaining events that required by researchers in carrying out his/her research is the most important function. There are two broad frameworks commonly used to examine and interpret financial reporting disclosures: the decision usefulness approach and the accountability approach and this chapter will evaluate them in turn with a view to identifying the most appropriate one for the thesis. Ijiri (1983) argues that a theoretical framework of accounting reporting and disclosure practices can be based on either, but the choice critically affects the resulting framework. Ijiri distinguishes between the two frameworks by indicating that a decision-usefulness based framework focuses primarily on the decision-maker (i.e. the user of accounting information). An accountability based framework instead emphasises the relation between the accountor (the provider of the accounting information) and the accountee (the user of the information).

Accountability and decision usefulness as lenses for accounting research will not necessarily lead to the same understanding of accounting phenomena or lead to equally convincing justifications for accounting as a notion (Williams, 1987). Similarly, Collison et al. (1993, p. 2) state that:

> "Any deductive analysis of financial reporting ideally starts with specification of the purpose that financial statements serve. Such specification is problematic, because there appear to be two major alternatives which could generate different analyses and conclusions. These are 'decision usefulness' and 'accountability'."

Therefore, since a theory can provide the necessary frame of reference required to design, predict, interpret and explain research findings, this chapter considers the theoretical aspects underlying the decision usefulness and accountability approaches. The focus of this thesis is to evaluate and investigate financial disclosure practices in Libyan banks' annual reports and accounts; accordingly, the development and interpretation of the research will depend on which theoretical approach the researcher selects and this issue is the focus of the remainder of the chapter.

4.3 The Accountability Approach

Accountability is defined by Gray et al. (1987, p. 2) defined accountability as "the onus, requirement, or responsibility to provide an account (by no means necessarily a financial account) or reckoning of the actions for which one is held responsible". Perks (1993, p.24) defined accountability in a more specific commercial context, arguing that "Accountability as a concept may be traced to the separation of ownership from management in business organisations and is related to the concept of stewardship whereby managers provide an account to owners". Gray et al. (1991) suggest that stewardship is essentially a special case of accountability concerning the provision of financial statements to shareholders on the use made of their money and the legitimacy of any such action, as well as the employment of these statements to ascertain that the stewards -the executive of the company- are properly managing the company' assets and liabilities (see also Cyert and Ijiri, 1974; Chen, 1975). The development of joint stock companies and the limited liability business form expanded the need for accountability in the business sector, since financial statements were provided to shareholders who might be widely dispersed in the community (Coy. et al. 2001). The stewardship notion was then extended to include a role for financial statements as the basis for evaluating the performance of management (Chen, 1975). Consequently, management are generally as stewards for employees, customers, and society as a whole, in addition to shareholders.

Jackson (1982, p.220) describes accountability as involving "explaining or justifying what has been done, what is being done and what has been planned...thus, one party is accountable to another in the sense that one of the parties has a right to call upon the other to give an account of his activities". Finally, a clear and simple description of accountability term introduced by Ijiri (1975) suggests that "accountability presumes a relationship between two parties, namely someone (an accountor) is accountable to someone else (an accountee) for his activities and their consequences".

The previous definitions of accountability imply that there are at least two parties in the entity under consideration. On the one hand, there is the accountor (management), responsible for providing the information and with a right to protect privacy. On the other hand, there are accountees (external users) to whom the information is due and who have a right to knowledge, or a right to information. In this context, the accountees have come to be argued as including various groups within society.

There are a number of authors (e.g., Benston, 1982; Ijiri, 1983; Gray and Jenkins, 1993; Gray 1992, etc.) who supported and adopted the accountability approach as the theoretical framework for their researches. What these studies have in common is the assumption that if one party has a right to an account, the other party has a responsibility to give that account. A company thus performs its accountability to shareholders and stakeholders through production of annual reports and accounts. For example, Benston (1982) identifies shareholders, stakeholders (i.e. employees, customers, creditors and others with direct contractual or transactional relationships with the company), and the general public as company accountees. This accountability may be legal, as in the UK where companies are accountable to shareholders, or voluntary where companies choose to report more than the basic financial report and accounts to a wide group of stakeholders.

4.3.1 Limitations of the Accountability Approach

Despite extensive support (and employment) in the literature, several researchers (e.g., Tricker, 1983; Stewart, 1984; Roberts and Scapens, 1985; Coy, et al. 2001; Gray and Jenkins, 1993; Stanton, 1997, etc.) suggest that several limitations exist regarding the accountability approach. For example, the theory is based on the notion of a right to know or a right to information (Ijiri, 1983; Gray et al., 1991; and Gray, 1992), whereas most users do not have legal rights to full corporate financial information sets, but instead have only basic public access to that information (Stanton, 1997, p. 687)[61].

Tricker (1983) argues that accountability only exists when the right to information is enforceable. However, if -as is often the case in a financial reporting context- the accountee is incapable of enforcing accountability, no accountability obtains. Similarly, Stewart (1984) argues that accountability can only be secured when two conditions are met: first, if the accountor is obliged to give an account to the accountee: and second, if the accountee is capable of forcing the accountor to account. Therefore, accountability requires the exercise of the power to hold others to account through the provision of explanations and justifications[62].

Coy et al. (2001, p.8) argues that "accountability may be related to power relationships between accountors and accountees within organisations and in society as a whole". Additionally, accountability might restrict the freedom of accountors to take action and, as a result, they might search for ways to undermine, avoid and control accountability systems imposed on them. Moreover, accountors in general have power over the preparation of accountability information reported to accountees, a situation which may in turn exaggerate strengths and understate weaknesses (Ijiri 1983). In this context, Normanton (1971, p. 314) suggests that "It is not accountability merely to submit a certified financial account each year. To be accountable means to give reasons for, and

[61] Non-investor users of published financial information have moral rights to that information because of the existence of contracts, both explicit and implicit, that bind the reporting entity and its stakeholders (Stanton, 1997, p. 699).

[62] However, Gray (1992) emphasises that accountability can be due even if it cannot be enforced.

explanations of, actions taken; but an account rarely provides explanations and it never gives reasons".

Ijiri (1983) argues in favour of an accountability-based theoretical framework rather than one based on decision usefulness because the former would establish a "fair" system of information flows. However, the Corporate Report (1975, p.16) considers that "public accountability does not imply more than the responsibility to provide general purpose information. Whether or not subsequent questioning of action results will depend on the circumstances and reaction of users". Therefore, the role of accountability does not exceed the provision of information or an account which might be perceived as incomplete and ineffective (Perks, 1993).

According to Ijiri (1983) the main objective of reporting within an accountability framework is to achieve fairness for both the accountor and the accountee. Similarly, Williams (1987) argues that accountability is an important notion because it both implies constraints and inherently considers issues of fairness. However, Williams emphasises that the relationship between accountability and fairness does not necessarily imply that the latter prevails in the presence of power differentials. In addition, the author argues that the notion of fairness can reveal vagueness when it is used by accountants, since it might refer to fair presentation of accounting results rather than the more relevant fair production of such results. Ultimately, Williams (1987) argues, fairness is difficult to define in practice and subjective decisions must be made to decide what is, and is not, fair.

Ijiri (1983) states that "Based on the underlying accountability relation, the accountee has a right to know; at the same time the accountor has a right to protect privacy". However, Ijiri also argues that more information about the accountor is not necessarily better, in the sense that more information may be better from the point of view of the accountee, but not necessarily from an overall accountability perspective. The provision of subjective information could seriously damage the interest of the accountor, even if it is extremely useful to the accountee. Obvious examples of such damage are the cost of preparing and auditing annual reports, and the potential loss of the accountor's competitive advantage.

Although accountability remains an important notion, there has been a gradual shift to the decision usefulness approach. Hodgson et al. (1992) argue that since the early 1960s, the traditional stewardship role of accounting data has been replaced in perceived importance by a decision-making function. More recently, Coy et al. (2001) suggest that stewardship as the primary rationale for accounting has effectively been replaced by decision usefulness. In this regard, Anton (1976) indicated that the traditional perspective of stewardship -and the orientation of financial reporting towards past events- have given way to the purported benefit of the release of information that function as a key input in decision-making processes. Without necessarily suggesting that accountability approach has been fully superseded, it is obvious from the above discussion that, a move towards the adoption and recognition of decision usefulness as the underpinning theoretical framework of financial reporting has occurred. The discussion is now directed to this approach.

4.4 The Decision Usefulness Approach

4.4.1 Background

The decision usefulness approach has played a key role in the development of modern accounting thought (Staubus, 1999). The development of the theory can be traced to the middle of the twentieth century when financial statements were regularly criticised as being of little use to the user in making economic decisions (Edwards, 1989). One remarkable facet of the development of the approach is the usage of the term "decision usefulness" itself (Staubus, 1999). The rationale for the identification of users and uses of corporate financial information stems from this author's earlier derivation of the "decision-usefulness" framework (Staubus, 1961). Within sixteen years, this author was able to claim that "Decision usefulness is now widely accepted as the appropriate objective of accounting" (Staubus, 1977). In this context, Williams (1987, p.169) argues that "decision usefulness has become a central principle for organizing accounting research and practices".

The decision usefulness approach refers to a huge body of literature concerned, from both a positive and a normative point of view, with the importance users attribute to reported information (Gray et al., 1995); in other words, the approach attempts to describe accounting as a process of providing relevant information to relevant decision-makers (Gray et al., 1996). In a similar view, Ijiri (1983, p. 75) states that:

> "In a decision-based framework, the objective of accounting is to provide information useful for economic decisions. It does not matter what the information is about. More information is always preferred to less as long as it is cost effective. Subjective information is welcome as long as it is useful to the decision makers".

Developing this theme, it is clear that the decision usefulness framework for accounting theory is based on the idea that the main objective of accounting information is to provide financial information about the economic activities of an enterprise to users for employment in the decision-making process (CCSEFR, 1973). To be useful in this context, financial information must be relevant and reliable. These two criteria are considered to be the key qualities that make accounting information useful for decision-making purposes; if either is missing, a given piece of information will not be useful (Kieso, et al. 2005). Furthermore, the financial information should be objective, verifiable, free from bias and precise. Understandability, comparability and timeliness are also significant characteristics in terms of the usefulness of financial information (CCSEFR, 1973).

The decision usefulness framework came to be regarded by many as the most important objective of financial reporting following the publication of several significant studies in the late 1960s (e.g. American Accounting Association, 1966; Beaver, 1968). Staubus (1999, p. i) argues that:

> "With or without the appellation, the decision usefulness theory of accounting is now generally accepted among those few people interested in accounting theory. There is no recognisable alternative. It has been the most important development in accounting thought in the second half of the twentieth century".

Additional evidence of the pervasive nature of support for the decision usefulness approach comes from Laughlin and Puxty (1981, p.45) who state that "this criterion appears to be so widely accepted that it is not thought necessary to argue the fact: the literature tends to take it for granted".

Storey and Storey (1998, p.71) describe the movement towards decision-usefulness as a "fundamental change in attitude toward the purposes of financial statements". Before this time, the traditional focus of financial reporting was on management's stewardship role (Perks, 1993 and Coy, et al. 2001), but the publication of the Trueblood Report in 1973, which stated that "The basic objective of financial statements is to provide information useful for making economic decisions", provided the impetus for departing from the traditional approach (Son et al., 2006, p.220). In 1978, the Financial Accounting Standards Board (FASB) issued its Statement of Financial Concepts No.1 which also adopted a decision usefulness approach. Perks (1993) describes this latter publication's emphasis of decision-making as the main objective of financial information rather than stewardship as a significant turning point. However, Staubus (1999, p. 588) contends that decision usefulness is not being accorded the respect that it merits, had still not fully won over the FASB 20 years later.

The Accounting Standards Steering Committee in the UK (1975) also adopted the decision usefulness approach when it published the Corporate Report -the main objective of financial accounting in the report was assumed to be to help users in making their economic decisions. The Corporate Report, which has had an impact on many later studies in the financial reporting field, represents an early attempt in the UK to set out a decision usefulness framework for accounting (Son et al., 2006, p.220). Similarly, The Accounting Standards Board in the UK (1991) also reflected a decision usefulness foundation, stating that financial statements are intended to "Provide information about the financial position, performance and financial adaptability of an enterprise to a wide range of users in making economic decisions" (Para. 12).

It is clear from the preceding discussion that the fundamental argument for the decision usefulness approach is that economic entities disclose information regarding their financial activities primarily because traditional user-groups find it important for their investment decision-making process. The discussion now turns to particular strands of theorising and empirical methodologies that have developed out of the decision-oriented financial reporting paradigm.

4.4.2 Evaluation of the Usefulness of Accounting Information

The move towards emphasising decision making as the main objective of financial information rather than stewardship led to the development of two main areas of accounting research that relate directly to the evaluation of the usefulness of accounting information and other financial disclosures in decision-making processes. The first such area is Behavioural Accounting Research which focuses on the usefulness of accounting information for individuals and examines how an individual makes decisions in response to accounting information. Secondly, Market-Based Accounting Research examines decision makers' behaviour in aggregate by focusing on the reactions of stock markets to accounting information (Dyckman et al., 1975; Underdown and Taylor, 1985; Gray et al., 1987; and Beattie, 2005). These two methods of research are discussed in detail in the following two sections.

4.4.2.1 Behavioural Accounting Research

The main objective of behavioural accounting research (BAR) is to "understand, explain, and predict human behaviour within an accounting context" (Riahi-Belkaoui, 1992). Hofstedt and Kinard (1970, p.43) define BAR as "the study of the behaviour of accountants or the behaviour of non-accountants as they are influenced by accounting functions and reports". BAR is now regarded as one of the main ways of determining the usefulness of financial information, particularly because it involves asking users directly how they employ annual reports and therefore establishing first-hand the nature of influences on user behaviour. Gibbins and Brennan (1982, p. 99) suggest that a wide range of research techniques are applicable in a BAR context, noting that: "Behavioural research, as it applies to financial accounting, uses empirical methods (such as field studies, protocol analyses, interviews, and questionnaires) arising from psychology and similar disciplines to seek general explanations of how accounting information is used".

The usefulness of financial statements data has been the subject of several previous BAR-based studies in different developing nations (e.g., Abu-Nassar and Rutherford, 1996; Nasser et al., 2003; Naser and Nuseibeh, 2003; Al-Razeen, 1999; Al-Razeen and Karbhari, 2004; and Mirshekary and Saudagaran, 2005)[63] and three main methods have been used therein to examine the usefulness of financial statement data and disclosure practices. First, the usefulness of accounting information can be measured by asking users directly about how they understand, use and make decisions and what role, if any, financial or non-financial information plays in these contexts (Wolk et al, 1992). Examples of such studies include; Baker and Haslem (1973), Lee and Tweedie (1975), Abu-Nassar and Rutherford (1996), Nasser et al. (2003), Naser and Nuseibeh (2003), Al-Razeen and Karbhari (2004) and Mirshekary and Saudagaran (2005).

[63] Further details on these and other related studies that examine the usefulness of financial information are provided in Chapter 3.

The second type of method involves asking users of financial reports to indicate (weight) the significance of certain financial information items in their investment decision-making processes (Dyckman, et al. 1978). The main focus of this type of survey is on whether the information regarding certain financial items is sufficient for investment decision-making process. Examples of such studies include Singhvi and Desai (1971), Buzby (1974b), Firth (1978), Belkaoui and Kahl (1978), McNally et al. (1982) and Chow and Wong-Boren (1987).

The third method employed on a regular basis in BAR-based studies involves exploration the perceptions and attitudes of report preparers (or preparers and users together) about a variety of issues relating to financial reporting and disclosure practices. Examples of such studies include, Chandra (1974), Chandra and Greesball (1977), Abu-Nassar and Rutherford (1995), Ho and Wong (2003), Yaftian and Mirshekary (2005) and Stainbank and Peebles (2006).

Epstein and Pava (1993) suggest that two main weaknesses in the BAR literature, the first being that "we can never be certain that the group of persons who willingly make the effort to answer ... [a] questionnaire truly represent the total population of shareholders" (p. 167). Another limitation cited by these authors is that "we are claiming to use a self-selected sample of respondents to represent the entire universe of shareholders. A question that arises here is are we getting an accurate picture of the views and opinions of the typical shareholder? Neither the magnitude of the sample size, nor the proportion it is of the entire population, nor the rate of response to the survey, directly determines the accuracy with which the sample represents the population" (p. 167).

4.4.2.2 Market-Based Accounting Research

Griffen (1982, p.175) states that "an analysis of the market response to accounting information may provide more objective indicators of investors' activities than other means (e.g., questionnaires or interview), since the results of actual transactions are analysed rather than the views of respondents which may or may not be true". Market-Based Accounting Research (MBAR) is mainly interested in assessing the usefulness of accounting information (Epstein and Pava, 1993) in such a way, i.e. by examining changes in the price of traded securities that follow disclosures in firms' financial statements. As Epstein and Pava (1993, p.52) note; "The rationale underlying market-based studies derives from the Efficient Market Hypothesis (EMH), which argues that share prices respond quickly and correctly to new information."

The EMH, which underpins studies of the usefulness of accounting information, enables the behaviour of decision makers in aggregate to be induced from the stock market reaction to financial statements releases by generating expected (or 'normal') risk adjusted benchmarks (Dyckman et al., 1975). Without having the EMH as an assumed hypothesis (in conjunction with asset pricing models such as the Capital Asset Pricing Model), it would be difficult, if not impossible, to interpret market based research in a meaningful and robust manner (Epstein and Pava, 1993).

4.4.3 Limitations of the Decision Usefulness Approach

The accounting literature suggests that several weaknesses remain regarding employment of the decision usefulness approach. In particular, the theory assumes that users of accounting information make rational decisions; as Page (1991) notes " decision usefulness supposes that users of accounting information make rational decisions, i.e. decision made by processing information efficiently to chose courses of action with the most valued expected pay-offs. If this is so, then only one rule can be established -provide more information rather than less. Rational information processors can easily convert from one accounting basis to another if sufficient information is given, so there is no reason to prefer one basis to another. Decision-usefulness gives no more guidance than this" (p.31). In this context, Simon (1976) argues that decision-makers can only ever attain restricted rationality since perfect rationality would require unlimited (perfect) knowledge.

As mentioned above, AICPA's Trueblood Report (1973) adopted the decision usefulness approach, pointing out that "The basic objective of financial statements is to provide information useful for making economic decisions" (p. 13). However, Cyert and Ijiri (1974) argue that the suggestions of the Trueblood Report are not fully workable in practice. The major problem the authors identify is that the accounting profession is only capable of attesting to a restricted range of information, one that is not broad enough to meet the needs and obligations of the three interested parties in financial accounting, (the accounting profession, corporations and users). Given this assertion, it is perhaps not surprising that the decision usefulness framework has frequently been questioned by those close to it. For example, regarding the reaction to the Trueblood Report, Armstrong (1977, p.7) states:

> "Could there be disagreement with a statement such as this? I am sure you will be astounded to learn that only 37 percent of our respondents were able to recommend the adoption of the objective. Twenty-two percent recommended that it be rejected out of hand; and 10 percent insisted that it needed further study. It is difficult to believe that only 37 percent can agree that the basic objective of financial statements is to provide information useful for making economic decisions. I think this suggests the problem quite clearly".

In addition, the decision usefulness approach does not appear to explain existing reporting practices fully (Owen et al., 1987). Page (1991) argues that decision-makers require information which is forward-looking and unprejudiced, while financial statements are concerned with the past; moreover, the realisation concept conceals information about the true worth of assets. Adopting an alternative perspective, Laughlin and Puxty (1981) argue that the decision usefulness approach poorly describes existing reporting practice since management is unenthusiastic to release more than is perceived as "good" for the company.

The decision usefulness approach fails to address the concept of rights to information or the right to know, which is often regarded as one of the most significant requirements of disclosure practices (Ijiri, 1983; Gray, 1991). While proponents of the decision usefulness approach point out that a need for information can be associated with a right to information (Gray, et al. 1991), Likerman and Creasy (1985) consider this notion to be unsound and unacceptable, since the need for information does not automatically give an unalienable right.

Ijiri (1983, p. 75) distinguishes between decision-based and accountability-based conceptual frameworks and stresses the concept of fairness as basic objective to be accomplished by an accounting system. "In a decision-based framework, the objective of accounting is to provide information useful for economic decisions...In an accountability framework, the objective of accounting is to provide a fair system of information flow between the accountor and accountee." (p. 75). Williams (1987) defines the fairness concept as

> "A noun that describes an evaluation process with two interrelated attributes. The first is that the evaluator is aware of the condition that any consequences of his or her actions will be judged as fair or unfair. This does not imply that the evaluator knows what is or is not fair but merely that it recognises that the results of some of its actions have implications that will be judged by others using some criteria of justness... The second attribute of the process is that the evaluator attempts to adopt a perspective of impartiality" (p. 171).

Based on such a definition of fairness, the decision usefulness approach has been criticised for failing to address the concept of fairness, since it does not encapsulate any such criteria (Ijiri, 1983; Williams, 1987). Therefore, fairness, as a property, does not exist with the decision usefulness approach in any meaningful sense (Ijiri, 1983). In this regard, Coy et al. (2001) contend that fairness is a concept inevitably missing from a decision usefulness framework, but is a key for one based on stewardship. Similarly, Tower (1993) argues that the objective of reporting under the accountability framework is to achieve fairness to both sides; accountor and accountee, whereas fairness is not a requirement of a decision based system.

4.5 Theoretical Framework for the Current Study

Despite the aforementioned criticisms the decision usefulness approach has become fundamental to information disclosure and its theoretical and practical implications have played a significant role in the history of financial accounting research in developed and developing countries (Staubus, 2000).

It is obvious that the accountability approach implies a commitment to provide information, both financial and non-financial, to a wide group of users[64], potentially including society at large and/or various groups wherein. However, since the accountability approach is not geared to the requirements of any specific user group in terms of discharging accountability, it has been regarded as narrower in focus and approach than decision usefulness (Al-Bogami, 1996). Notwithstanding these general points, the decision usefulness approach was adopted as the theoretical underpinning for the purposes of this particular study for four main reasons:

1. The decision usefulness approach has been adopted widely in previous studies of accounting in developing countries (e.g., Al-Bogami, 1996; Abu-Nassar and Rutherford, 1996; Al-Mubarak, 1997; Nasser et al., 2003; Naser and Nuseibeh, 2003; Al-Razeen, 1999; Al-Almahmoud, 2000; Razeen and Karbhari, 2004; and Mirshekary and Saudagaran, 2005)[65], suggesting that such a approach would be well suited to the Libyan emerging market environment.

[64] Hooks et al. (2002) argue that "accountability reports would be more comprehensive and meet the needs of a wider user group than decision-based reports".
[65] Further details of these studies are provided in Chapter 3.

2. As discussed in Chapter 2, there is no formal set of domestic accounting standards in Libya, or any requirements about which international or external accounting principles and standards should be adopted. In the absence of any such rules the Libyan accounting profession has, de-facto, followed British and American accounting practice, which –as noted earlier- are based on the decision usefulness framework. The decision usefulness approach should therefore provide a more meaningful foundation for the study than any alternative accountability-based approach. This concern was a key to both the questionnaires employed in the thesis and the construction of the disclosure index used in Chapter 8 to examine the content of Libyan banks' annual reports.

3. The main focus of the current study is on the perceptions of users and preparers about Libyan banks' financial disclosure practices rather than on the relationship between the preparers of accounting information and the users of accounting information. A decision usefulness approach –rather than an accountability approach- appears most appropriate as theoretical framework for this study from this perspective as well.

4. Chapter 2 notes, with the exception of Banking Law No.1 (2005), Libyan companies are not required by the LCC to provide their accounts to the public[66]. Therefore, Libyan companies are thus not required to provide an account to external users, and external users do not have a right to know or a right to information. Therefore, there is no accountability due and the decision usefulness approach instead of accountability

[66] The LCC requires companies to provide annual reports only to shareholders, general assembly, tax authorities, follow-up office and planning office.

approach is clearly more appropriate given in this context. More generally in developing countries, where democratic principles and freedom of thought are still emerging, the very notion of various stakeholders holding major national institutions to account is a concept hard to reconcile with most individuals' experiences

Finally, in terms of the particular type of theoretical model adopted, the Libyan Stock Market (LSM) is still in the primary stages of development and it would clearly be impossible to use the MBAR framework to evaluate the usefulness of accounting information and other financial disclosures in Libya in a robust way. Therefore, the current study employs a BAR framework to assess perceptions of the information disclosed in Libyan banks' annual reports.

4.6 Summary

The main objective of this study is to explore the perceptions of users and preparers of Libyan banks' annual reports regarding disclosure practices and to examine the level of financial disclosure actually provided in the documents. It is clearly important given these aims to carefully consider the theoretical issues relating to reporting by such organisations and select a foundation for the work that fits the context and purposes of the research appropriately. Two main approaches relating to the objective of accounting information, namely: accountability and decision usefulness were discussed in detail. For various reasons, it was concluded that the decision usefulness approach is the most appropriate for this research; the next builds on this analysis by discussing the research paradigm, methodologies and methods that the literature identifies as being best suited to such research and explaining their role in the current study.

Chapter Five
Research Methodology and Methods

5.1 Introduction

Any research design involves several relevant important steps, beginning with the process of selecting a research paradigm that is capable of informing and guiding the research process. This stage is followed by connecting the selected research paradigm to the empirical world through an appropriate methodology. The final stage involves selecting a method of collection and analysis of data (Denzin and Lincoln, 1994). The major purpose of this chapter is therefore to consider the paradigm that guides the research methodology and research methods employed in attempting to explore this study's research questions and achieve its objectives. In order to accomplish this purpose, the research paradigm, methodology, methods and statistical tests underpinning the study are discussed in detail.

The chapter is divided into five further sections as follows: Section 5.2 deals with the subjective-objective social world dimension and the regulation-radical society dimension and addresses Burrell and Morgan (1979)'s widely-documented framework for social research in order to locate the conceptual context of this research. Section 5.3 and 5.4 outline the methodology and research methods. Section 5.5 discusses the question of research design from a number of perspectives including issues of validity and reliability. The final section concludes the chapter by summarising the implications of the discussion for the empirical research which follows.

5.2 Research Paradigm

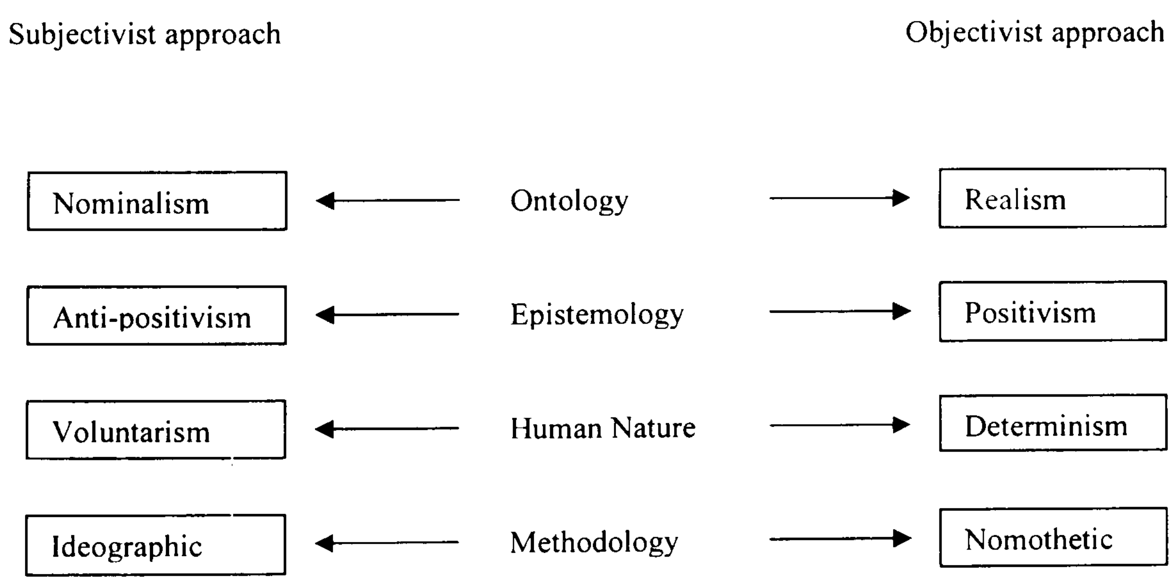
Collis and Hussey (2003, p.47) suggest that a paradigm "offers a framework comprising an accepted set of theories, methods and ways of defining data". Morgan (1979) argues that the term 'paradigm' can be used in three different ways. First, it can be employed philosophically to reflect fundamental notions about the world. Second, it can be engaged socially to develop guidelines for the researcher in carrying out his or her research. Third, it can be used technically to identify the methods and techniques that should be adopted for carrying out an investigative study. Burrell and Morgan (1979) developed a framework for understanding broad streams of social science approaches to empirical research. Their framework involves two dimensions, namely the subjective-objective social world dimension and the regulation-radical society dimension.

5.2.1 The Subjective-Objective Dimension

The subjective-objective dimension of social science research is based on four assumptions regarding the fundamental nature of the world. These assumptions are related to: (i) Ontology, (ii) Epistemology, (iii) Human nature and (iv) Methodology (Burrell and Morgan, 1979). These assumptions, which are represented diagrammatically in Figure 5.1 below, have direct implications for the research methodology employed, as well as the way in which investigations are carried out and how knowledge about the social world is attained. The notion of Ontology relates to the nature of reality and is defined by Crotty (1998, p.10) as "the study of being". The Ontological issues relate mainly to the structure of reality and question whether reality exists in hard, tangible and relatively immutable structures, as well as whether it can be considered to exist independent of individual consciousness (realism) or whether it is the product of individual awareness (nominalism) (Burrell and Morgan, 1979; Crotty, 1998).

Epistemology refers to "the theory of knowledge embedded in the theoretical perspective and thereby in the methodology" (Crotty, 1998, p.3). Thus, epistemology is concerned with assumptions about the nature and grounds of knowledge and how social scientists understand the social world (Burrell and Morgan, 1979). The two approaches to Epistemology are termed "positivism" and "anti-positivism" (Burrell and Morgan, 1979). Positivists argue that knowledge exists independently of any consciousness, while anti-positivists suggest that knowledge is subjectively imposed (Crotty, 1998).

Figure 5.1: Burrell and Morgan's (1979) Schema for Analysing Assumptions about the Nature of Social Science Research



***Source:** cited from Burrell & Morgan (1979)*

The Human Nature notion is concerned with the relationship between human beings and their environment (Burrell and Morgan, 1979). The two main dimensions underpinning this concept are determinism and voluntarism. The determinist view is based on seeing human beings -and their experiences- as the products of their environment. In contrast, a voluntarism view reflects the idea that human beings are independent and free-willed, and sees individuals as the creator and controller of their environment (Burrell and Morgan, 1979).

The term methodology refers to "the theory of how research should be undertaken" (Saunders et al., 2003, p. 2). The notion of methodology is concerned with how the researcher gains knowledge about the world; critically the methodology employed by a researcher is formed by his/her ontological and epistemological assumptions. The two approaches to methodology underpin the methods employed to collect and are termed "nomothetic" and "ideographic". From a nomothetic standpoint, the social world is seen as being similar to the physical or natural world and the data can be gathered through the use of protocols and procedures that stem from the natural science; in particular, statistical techniques are used to test hypotheses and to analyse research data gathered by the use of quantitative research techniques, such as questionnaire surveys. The Ideographic view sees knowledge as something that has to be personally experienced; data can therefore best be gathered through employing qualitative research techniques, such as case studies and interviews (Burrell and Morgan, 1979).

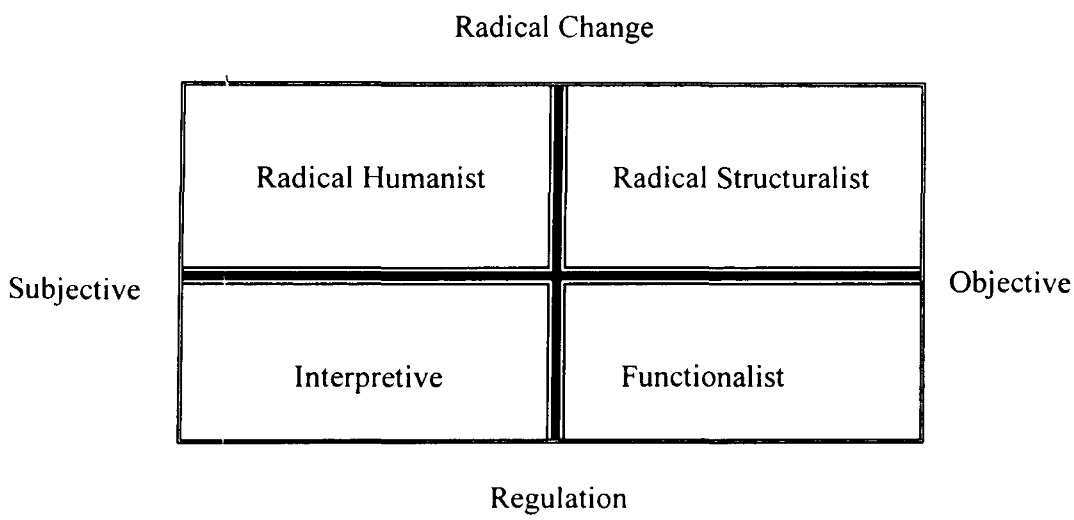
5.2.2 The Regulation-Radical Change Dimension

The regulation-radical change dimension relates to two alternative societal views, termed "regulation" and radical "change". The regulation approach emphasises providing explanations of the need for regulation in human dealings that allow society to continue as a meaningful entity. Radical change approach focuses on the search for explanations for radical change; it emphasises the separation and division of interests, non-regulatory and conflict structures, and imbalanced allocations of power, which provide the potential for radical change (Burrell and Morgan, 1979).

5.2.3 Burrell and Morgan's Paradigms

When the subjective-objective and regulation-radical change dimensions are brought together, four paradigms result. These are termed: functionalist, interpretive, structuralist, and humanist by Burrell and Morgan (1979). Burrell and Morgan argue that these paradigms share a common set of features and should therefore be viewed as contiguous but separate. To Burrell and Morgan, social-scientific reality depends upon the paradigm researchers adopt. Figure 5.2 illustrates the subjective-objective and regulation-radical change dimensions and the location of each paradigm within each.

Figure 5.2: Four Paradigms for Analysis of Social Theory



***Source:** Burrell & Morgan (1979)*

The radical paradigms are drawn from the radical change dimensions and therefore focus on challenging the status quo and striving for fundamental change. Radical humanists observe the world from a subjective perspective and seek to change societal aspects by eliminating human beings' constraints. Humanists are concerned with how people create and maintain a mode of social organisation in which they live, and how they try to change it; the aim is to understand the relationship between consciousness and the external world. In Burrell and Morgan's terminology, a radical humanist views the social world from a nominalist, anti-positivist, voluntarist, and ideographic standpoint (Burrell and Morgan, 1979, p.32).

Radical structuralists view the world from an objective perspective and typically concentrate on changing universal structures and the social order. The radical structuralist sees the social world from a standpoint which tends to be realist, positivist, determinist, and nomothetic (Burrell and Morgan, 1979).

In contrast to the radical humanist and radical structuralist paradigms, the interpretive and functionalist paradigms emphasise regulation. The former employs a nominalist ontology, an anti-positivistic epistemology, a voluntaristic view of human nature and an ideographic methodology, while the functionalist paradigm explores the social order from a realist, positivist, determinist and nomothetic point of view. Interpretive research observes the activities of individuals in order to gain a better understanding of society, while functionalist research attempts to provide rational explanations of human nature and generalise the findings; the latter is possible with such an approach as uniformity and predictability in social relationships is assumed (Burrell and Morgan, 1979).

For the current study, the researcher considers that: (i) reality exists in hard, tangible and relatively immutable structures, and can be regarded as independent of individual consciousness (realism); (ii) knowledge exists independently of any consciousness (positivism); (iii) human beings and their experience are seen as the products of their environment (determinism); and (iv) the social world is similar to the natural world (nomothetic). Therefore, this places this research at the objective end of the Burrell and Morgan paradigm (1979). Accordingly, this research can only be located either in the radical structuralist paradigm or in the functionalist paradigm. The main objective of the researcher is to understand and explore the phenomenon under investigation without any intention of creating changes in the phenomenon being studied. The phenomenon being studied within this thesis is financial disclosure practice in Libyan banks' annual reports. The research concentrates on the issue of how the status quo is constructed and maintained rather than how to change it; this approach clearly contradicts the radical structuralist paradigm, but fits closely with the central tenets of a functionalist paradigm. In summary, the present research is conducted within the functionalist paradigm where a realist ontology, a positivistic epistemology, a deterministic view of nature and a nomothetic methodology are adopted.

5.3 Research Methodology

Silverman (1993, p.2) states that "methodology is a general approach to studying a research topic", while Collis and Hussey (2003, p. 55) defined the term methodology as relating to "the overall approach to the research process, from the theoretical underpinning to the collection and analysis of the data". The qualitative versus quantitative dimension is widely considered to be the most fundamental distinction in research methodology (Bailey, 1978). Quantitative research methodology was first developed for studying natural phenomena in the natural sciences; it deals with data that can be counted, frequently making use of statistical manipulation of numbers to summarise and interrogate the information. In contrast, the qualitative research methodology was originally developed for the studies in the social sciences, to allow researchers to study social and cultural phenomena (Lock et al., 1998).

The selection of a qualitative and/or quantitative methodology relies on the types of questions addressed, the nature of the population being studied and on the overall objectives of the research (Mariamposlki, 2001). For the purpose of this study, the kinds of questions being asked, the nature of the population and the underlying objectives of the study mean that a quantitative approach is adopted to collect and analyse data.

5.4 Research Methods

Hussey and Hussey (1997, p.54) state that the term 'method' refers to "the various means by which data can be collected and/or analysed", while Saunders et al. (2003, p.2) define the term as relating to "the tools and techniques used to obtain and analyse the data". There are different methods by which data can be gathered and analysed. Questionnaires, observations, textual analysis, interviews and case studies are the main data collection methods employed in social science. There are many factors affecting the specific choice of method for any given study, such as: the purpose of the study; sample size; the time available; and the environment and conditions under which the study is conducted.

In the context of the current study, two methods were adopted to achieve its objectives, namely a disclosure index analysis and a questionnaire survey. These methods have been adopted in many previous related studies. The current study does not incorporate interviews, but does employ a questionnaire survey. The following reasons underpin this decision:

1. The current study targets a large number of Libyan participants (users and preparers), and it simply would not be practical to conduct a meaningful number of face-to-face interviews in a normal thesis time-frame.
2. As Chapter 3 indicates, the vast majority of previous studies that have been carried out in this field adopt the questionnaire survey as the primary method for gathering data. The approach here therefore provides for comparability with earlier findings.
3. The current study deals with a large number of Libyan bank officers, as both prepares and users, and it might be difficult to access banks' officers and find bankers who are available and willing to be interviewees.

5.4.1 The Questionnaire Survey Method

A questionnaire is a structured data collection technique whereby each participant is asked the same set of written questions (Oppenheim, 1992). Sekaran (1992) defined the questionnaire as a "formulated written set of questions to which respondents record their answers, usually within rather closely defined alternatives". The questionnaire can be conducted either by mailing it to respondents or by personal administration whereby the questionnaire is presented to the respondents with explanation of the purpose of the investigation, and then the respondent is left unaccompanied to fill in it, prior to subsequent pick up (Oppenheim, 1992)[67].

Sekaran (1992) classifies the type of questions employed in a survey into two main categories, namely 'open-ended' and 'closed'. In open-ended questions, respondents are free to reply to the questions in any way they wish; with closed questions they must reply in one of a predetermined number of ways such as "yes", "no", or "do not know" (Stacey, 1970). In this context, Oppenheim (1992) argues that open-ended questions are often relatively easy to ask, but difficult to answer, and still more awkward to code and analyse. The choice between open-ended or closed questions depends on a range of factors including the question content, respondents' motivation, methods of administration, type of respondents, availability of skilled coders to code open-ended answers and the amount of time available to develop a set of unbiased answers (De Vaus, 1990). The next section of chapter discusses these issues as they relate to the choices made in the present study.

5.4.1.1 Research Questionnaire Design

A mail-questionnaire was thought to be unsuitable for the present study as it might take too long to post the document, collect responses, and follow up on non-returns because the majority of individuals and organizations in Libya tend not to rely on the current post system[68]. Moreover, response rates for self-administrated questionnaires tend to be relatively high (Hussey and Hussey, 1997, p.163). Therefore, a self-administered

[67] Blaxter et al. (1998) suggest that modern questionnaires can take one of four forms: face-to-face, postal, telephone and internet surveys.
[68] The present post system in Libya is old; in addition homes, flats and organisations have not yet been coded and individuals and organisations still have to depend on post boxes that are available inside the main post buildings.

questionnaire was selected for the research[69]. The researcher then designed a series of closed questions again reflecting the thesis aims and the extant literature. The vast majority of the questions took the form of statements, with respondents asked to indicate their views using a five-point Likert scale[70].

A number of the survey questions employed in this study were based on those used in earlier related studies, but with some modifications to ensure validity in a Libyan environment. Every effort was made to ensure that the questionnaires covered all the areas relevant to research examining disclosure practices, in particular those in developing countries. The questions were therefore prepared following completion of the literature review chapter and incorporation of all key studies therein, including (e.g., Lee and Tweedie, 1975a; Benjamin and Stanga, 1976; Anderson, 1981; Courtis, 1982; Anderson and Epstein, 1995; Epstein and Pava, 1993; Abu-Nassar and Rutherford, 1995; Abu-Nassar and Rutherford, 1996; Nasser et al., 2003; Naser and Nuseibeh, 2003; Al-Razeen and Karbhari, 2004; Mirshekary and Saudagaran, 2005; Mashat et al., 2005; and Yaftian and Mirshekary, 2005).

The final issue that had to be dealt with regarding the questionnaire design was the translation. Oppenheim (1992) states that "the translation of questionnaires from one language to another is akin to entering a series of mine fields". Because Arabic is the primary language in Libya and the respondents might not have been able to answer an English-based questionnaire without some misunderstandings or ambiguities affecting

[69] Babbie (1998) suggests that self-administered questionnaires are "the best method available to the social scientist interested in collecting original data for describing a population too large to observe directly" (p.256).
[70] Likert scaling is a method designed to measure peoples' attitude in an objective manner (Nachmias and Nachmias, 1996).

the responses. Given that most of the relevant writings are in the English language the questionnaires were originally constructed in English and then translated into Arabic. In order to avoid potential problems relating to the translation process, several steps were undertaken when constructing the Arabic version, namely:

1. Reviewing previous questionnaires relating to accounting in Arab countries that were originally written in English and translated to Arabic. This review provided useful guidance regarding the most appropriate translation of specific accounting terms and expressions used in the questionnaires.
2. The first attempt to translate the questionnaire used in the study was discussed in detail - question by question and statement by statement- with several experienced postgraduate colleagues in the University of Dundee and some PhD students from other UK universities whose native language is Arabic. These individuals were then provided with the Arabic version of the questionnaires and asked to assess whether the Arabic and the English versions corresponded accurately.
3. Some private translation bureaus located in Al Khums[71] city reviewed both versions of the questionnaire (English and Arabic) to avoid any bias that might be encountered if the researcher undertook the translation by himself.
4. One of the main objectives of the pilot testing (see below) was to make sure that the translation process would not lead to any misunderstanding of the questionnaire (this danger is noted by Oppenheim, 1992). The pilot study

[71] Al Khums city, where the researcher lives, is located 120 km east of the capital Tripoli.

provided the opportunity to discuss translation issues with respondents who were familiar with both languages (such as academics[72]).

As a result of this process several changes and modifications were made to the questionnaire before it was distributed.

5.4.1.2 The Pilot Study

Pilot research provides first-hand insight into the issue under investigation from the participants' perspective (Ghauri et al, 1995), Sekaran (2003) states that

> "It is believed that a pilot study prior to the actual research investigation is critical and has many advantages. It is important to pre test the questionnaire to ensure that the questions are understood by the respondents and to establish that there are no problems with the wording, ambiguity or measurement".

In this context, Oppenheim (1992) argues that questionnaires have to be constructed, tried out, improved and then tried out again, often several times, until it is assured that they can act in the intended manner. Such pilot work is considered to be useful in refining the wording, ordering, layout and filtering and in controlling the questionnaire length.

To maximise the likelihood of the questionnaire fulfilling its intended role and generating meaningful data in a Libyan context, the document went through two pre-testing stages. The first draft was piloted to a number of PhD students and staff in the School of Accounting and Finance at the University of Dundee and their perceptions was obtained on the wording, sequence and structure of the questions. Based on this feedback, several modifications were made. The second pilot study took place in Libya,

[72] I.e. academics who had a PhD in accounting or finance from either the UK or the US.

where a number of questionnaires were distributed to bankers, external auditors, academics and tax officers. As a result of feedback obtained a small number of further modifications were made to the questionnaires.

5.4.1.3 Parts of Questionnaire

Two questionnaires[73] were used in the survey; one was sent to the preparers of Libyan banks' annual reports, while the other was addressed to users. The questionnaire began with a covering letter, encouraging the participants to complete the questionnaire and assuring them of total confidentiality. At the end of each questionnaire, the participants were asked if they had any further comments regarding financial disclosure in banks' annual reports, while all those who completed the questionnaires were offered the opportunity to request a copy of the results of the study.

The questionnaire was divided into two main parts. The first part contained six questions dealing with the respondents' background and seeking general information about their occupation, age, professional qualifications, level of education, place of education (for their most recent degree) and their accounting and financial experience. The main objective of this part of the document was to obtain a profile of the background of participants in the study to provide context and possible explanations of observed patterns in responses.

The second part of the questionnaire focussed on the main objective of the study, i.e. revealing the preparers' and users' perceptions about Libyan banks' financial disclosure practices. The majority of questions were designed to ask respondents to record their

[73] The full questionnaires (both the Arabic and English version) are provided in Appendixes 5.1 & 5.2.

perceptions according to a five-point Likert scale. At start of the second part, a brief introduction and guidelines were given to aid participants in completing the questionnaires (although the questions themselves were intended to be self-explanatory).

5.4.1.4 Distribution and Collection Procedures of the Questionnaires

For the purposes of the study, distribution and collection of questionnaires was undertaken in person. In each case, the questionnaire was presented accompanied by a covering letter identifying the researcher and the reasons for undertaking the study as well as encouraging the respondents to complete the questionnaire in full and assuring them full confidentiality. An explanation of the process of distributing and collecting the questionnaires is outlined in the following subsections.

5.4.1.4.1 Identifying the Preparer Groups

Following reflection on the literature, the Libyan context and the need to identify those responsible for (or impacting) preparation of banks' annual reports, four groups of preparers were selected for inclusion in the study. These groups are: General managers; Deputy general manages; Managers of accounting departments; and Accountants. It was assumed that these groups would have a good knowledge and understanding of financial disclosure processes and their answers would reflect this background.

General Managers

General managers are legally[74] and theoretically responsible for preparing Libyan banks' annual reports; this group is also responsible in practice for preparing the

[74] The LCC stipulates that the responsibility for the preparation of accounts is assigned to the companies' directors who are also required to prepare a report about the company's performance.

director's report contained therein. Therefore, the perceptions of this group are clearly critical to any survey of financial disclosure practices. Questionnaires were distributed to the general managers of 10 Libyan commercial banks. Seven questionnaires were completed, representing a 70% response rate.

Deputy General Managers

In Libya, deputy general managers are representatives of general managers and represent the link between the managerial and accounting functions. These individuals therefore have the potential to impact on the preparation of banks' annual reports, and so the deputy general managers of ten Libyan commercial banks were targeted by the researcher and their views solicited about banks' financial disclosure practices. Six out of the ten questionnaires were completed, resulting in a response rate of 60%.

Managers of Accounting Departments

The managers of accounting departments in Libya are responsible in practice for preparing financial statements, via supervising accountants' day-to-day activities and submitting documents relating to these to bank's management. Given the importance of this role, this group was also included in the study. Twenty questionnaires were distributed to accounting departments' managers in Libyan commercial banks, with twelve of these being completed and a 60% response rate resulting.

Accountants

Since accountants are responsible in practice for preparing financial statements in Libya, questionnaires were distributed to 35 accountants in Libyan commercial banks. Twenty-nine of these were completed, giving a response rate of 82.8%.

5.4.1.4.2 Identifying the User Groups

Again reflecting the literature, the Libyan environment and the decision-usefulness foundation of the thesis, seven groups of users of Libyan banks' annual reports were chosen as questionnaire recipients. These groups are: Institutional investors; Individual investors; Commercial Bank loan and investment officers; Central Bank officers; Tax officers; External Auditors; and Academics.

Institutional Investors

This group was selected here and in previous studies because institutional investors are likely to be sophisticated and have sufficient knowledge and experience to give informed answers to the questions included in the survey. Clearly a meaningful study of perceptions regarding financial reporting, particularly one with a decision-usefulness underpinning such as this, requires inclusion of this group. In this regard, Baker and Haslem (1973) note that institutional investors typically have diverse educational backgrounds and knowledge and these differences may have an impact on their perceptions. In the current study, the researcher therefore targeted investors in a range of institutions that invest in Libyan commercial banks. Twenty five questionnaires were distributed personally to the investment departments of six State-owned and private organisations. These organisations are: (1) the United Insurance Company; (2) the Libyan Insurance Company; (3) the Islamic Call Society; (4) the National Investment Company; (5) the Social and Economic Development Fund; and (6) the Social Pension Company for Investment. Fifteen questionnaires were completed and returned, resulting in a 60% response rate.

Individual Investors

This group of investors was also targeted, but without success. Although the LSM is still at an early stage of development, it was considered the only possible location of individual investors and so the researcher made several visits in an attempt to gain access to these parties. On each occasion, it was clear that very few individual investors were willing to complete the questionnaires and so the researcher made several attempts to contact private banks to obtain information regarding individual investors (such as names and addresses etc.). However, these attempts also proved to be in vain as the private banks refused to release any such information; consequently, individual investors had to be excluded from the population of the current study. However, some of the most relevant prior studies also excluded the individual investors (e.g., Chandra, 1974; Firth, 1978; McNally et al., 1982; etc.). Alrazeen (1999) suggests two reasons for this practice. First, the individual investors are sometimes excluded because, as in this study, they are simply too difficult to reach. Second, individual investors, typically those who do not have an accounting background, invest primarily according to the advice of financial analysts and brokers, and do not actually exploit accounting information themselves.

Commercial Bank Loan and Investment Officers

Bank credit officers have a major interest in determining whether or not a business enterprise will be capable of meeting its financial obligations; and this group is therefore commonly expected to consider carefully the financial information contained in annual reports before making any decision regarding awarding loans and advances (Naser, 1993). It is thus clearly important to solicit the perceptions of this group about the content and usefulness of Libyan banks' annual reports. Consequently, the head of departments of the loan and investment divisions of Libyan commercial banks (and their main branches in Tripoli, Misurata and Benghazi)[75] were targeted by the researcher and twenty questionnaires distributed personally. Fifteen of the distributed questionnaires were completed, resulting in a response rate of 75%.

Central Bank Officers

Since the Central Bank of Libya (CBL) is regarded as the nation's main supervisory and regulatory entity, and the key government instrument for maintaining stability within the financial market of country, it was considered important to explore CBL officers' perceptions about Libyan banks' financial disclosure practices. Twenty questionnaires were handed personally to the Department of Monetary and Banking Supervision in the CBL located in Tripoli (and its branches in Surt and Benghazi). Ten of the distributed questionnaires were completed, resulting in a response rate of 50%.

Tax Officers

Government and its agencies demand financial information for tax purposes as well as for economic planning (Naser, 1993). Libyan tax officers have statutory powers to require that financial statements be prepared in accordance with tax law and this greatly impacts on the financial reporting practices of Libyan companies (Bait El-Mal et al., 1973). Thus, this group is expected to consult financial reports to calculate corporation and other tax liabilities. Consequently, twenty questionnaires were handed personally to tax officers working in the corporation tax department of tax bureaus in three main

[75] Tripoli, Misurata and Benghazi were chosen because the majority of Libyan business activity is centred in these cities.

cities, namely; Tripoli, Misurata and Benghazi. Fourteen of the distributed questionnaires were collected, resulting in a response rate of 70%.

External Auditors

External auditors were surveyed to determine the perceptions of those who are responsible for verifying the financial statements of Libyan commercial banks. External auditors working in a number of accounting and auditing bureaus and firms located in Tripoli and Benghazi[76] were targeted. While twenty questionnaires were distributed personally, seventeen questionnaires were returned completed, resulting in a response rate of 85%.

Academics

Finally, academics were included in the survey since this group are responsible for teaching and educating the nation's future bankers and accountants, as well as carrying out research that employs firm's financial reports. Academics in the accounting or finance fields in two the main Libyan universities, namely: Al-Fateh University and Garyounis University (as well as the Academy of Graduate Studies) were targeted. These educational organisations were targeted because the qualifications, knowledge and experience of these academics staff are expected to be higher than amongst academics in other universities and they may have relevant and informed views about practices in the accounting profession in Libya[77]. Only ten out of twenty questionnaires were completed, resulting in a 50% response rate.

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[76] Tripoli and Benghazi were again targeted because the majority of external auditors working in accounting and auditing bureaus are located there.

[77]Most of the Libyan academic research in accounting mentioned in this thesis (Chapter 2 in particular) were written by staff members in one of these organisations (such as Bait El-Mal et al., 1973 and 1988;

5.4.1.4.3 Rate of Response

Table 5.1 outlines the distribution numbers and response rates for the questionnaires as well as the rate of response for each group and for the whole sample.

Table 5.1: Questionnaire Distribution and Response Rates of the Questionnaires

Users	Distribution Number	Responses	Rate of Response
Tax Officers	20	14	70%
External Auditors	20	17	85%
Academics Staff	20	10	50%
Central Bank Officers	20	10	50%
Individual Investors	00	00	0%
Institutional Investors	25	15	60%
Commercial Bank loan and Investment Officers	20	15	75%
Total	**125**	**81**	**64.8%**
Preparers			
General managers	10	7	70%
Deputies of general managers	10	6	60%
Managers of accounting departments	20	12	60%
Accountants	35	29	82.8%
Total	**75**	**54**	**72%**
Total for whole sample	**200**	**135**	**67.5%**

5.4.2 The Disclosure Index Method

Cooke and Wallace (1989, p.51) argue that "financial disclosure is an abstract concept that can not be measured directly. It does not possess inherent characteristics by which one can indicate its intensity or quality, like the capacity of a car". Nevertheless, they argued that a suitable proxy such as an index of disclosure can be used to gain insight into the extent of information disclosed by firms. A disclosure index is an extensive list of selected items that might be expected to be disclosed in a company's annual report (Marston and Shrives, 1991); Coy and Dixon (2004, p.79) state that:

> "Disclosure indices are an often applied method in accounting research, particularly in studies of annual reports, being used to provide a single-

Kilani, 1988; El-Sherif, 1978; Bakar, 1997 and 2003; Bengarbia, 1989; Salah 2002; Moamer, 2006; El-Sherif, 2006).

figure summary indicator either of the entire contents of reports of comparable organisations or particular aspects of interest covered by such reports."

A disclosure index can include mandatory items and/or voluntary items of information, and incorporates information items reported in one or more disclosure vehicles such as annual reports, interim reports, social and environmental reports. Since Cerf's study in 1961, researchers have used disclosure indices to measure, compare and explain differences in the quantity of information disclosed in company's annual reports. In addition, it can be used to show the extent of compliance with regulations and/or the amount of voluntary disclosure made by reporting entities (Marston and Shrives, 1991).

Previous literature employing the disclosure index varies in terms of the degree of researcher involvement in constructing the index, as well as the type of information disclosed and the number of items of information included in the index (Hassan and Marston, 2008, p.18). Each disclosure index employed is constructed based either on a user survey or on a search of the corporate reporting literature. In other words it is either a self-constructed index in which all the items in the index are selected by the researcher (full involvement) or a pre-developed index where the items are chosen to be consistent with earlier studies[78] (no involvement)[79]. Use of an existing index has an advantage in that direct comparison with previous research work can be made (Marston and Shrives, 1991, p.203)[80].

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[78] In other words, the researcher studies disclosure indices used in previous studies or professional organisations (such as IAS standards).

[79] Inbetween these two extremes, various degrees of researcher involvement are observed in Buzby (1974), Chow and Wong-Boren (1987) and Firth (1984).

[80] For example, Belkaoui and Kahl (1978) adapted the work of Cerf (1961), Barrett (1976), Singhvi and Desai (1971) and Buzby (1975) to create an index appropriate for use in the Canadian context. Firer and Meth (1986) adapted the index of Firth (1979) to develop an index appropriate to South Africa. Marston

The disclosure index approach has been adopted in many previous studies of financial reporting practices (e.g. Cerf, 1961; Choi, 1973; Kahl and Belkaoi, 1981; Cooke, 1989; Cooke, 1992; Wallace, et al., 1994; Meek, et al., 1995; Al-Bastaki, 1997; Inchausti, 1997; Botosan, 1997; Hossain, 2000; Depoers, 2000; Alhajraf, 2002; Chipalkatti, 2002; Naser and Nuseibeh, 2003; Al-Shayeb, 2003; Al-Razeen and Karbhari, 2004; Karim and Ahmed, 2005; Hossain and Reaz, 2007; Barako, 2007; Aljifri, 2008; Hossain, 2008)[81].

There are two main types of index employed in previous studies, namely weighted indices and unweighted indices. In the former case, non-disclosed items are scored zero (0), while disclosed items carry different scores, based on their perceived importance (above zero but less than one). Weights are often derived from the importance of the information items indicated by users in a questionnaire (Marston and Shrives, 1991). Alternatively, weights can be assigned to different items of information by the researcher (Botosan, 1997). However, assigning weights introduces degree of subjectivity (Firth, 1979) because the level of usefulness assigned to each item of information is not definitive; rather it varies depending on the country, the user, the industry and the time of the study (Hassan and Marston, 2008, p. 23). In addition, weights may not represent real economic consequences to the subjects whose opinions

(1986) used Barrett's (1976) index in carrying out a comparison of financial disclosure in the UK and India. Finally, Alhajerf (2002) adapted Mostafa's (1994) index to examine the level of disclosure in Kuwaiti banks' financial statements.

[81] Martson and Shrives (1991, p. 207) indicated that "a number of research projects over the years have made use of a disclosure index as a research tool. One test of the usefulness of a research tool is the extent to which it is used. In this case it has persisted over time, from the 1960s to the present, and has been used by many different researchers. A research tool will not continue to be used if it produces poor results".

are pooled (Chow and Wong-Boren, 1987), and may not reflect stable perceptions on similar disclosure items across subjects over time (Dhaliwal, 1980).

Given these limitations of the weighted index approach, many researchers have conducted their examination using an unweighted index. The unweighted method applies simple dichotomous scores, where a zero (0) is awarded for applicable non-disclosed items and a one (1) is awarded for items that are disclosed. The unweighted index approach therefore treats all information items as equally important in terms of their importance (Marston and Shrives, 1991); a similar implicit assumption is therefore made regarding users' decision-making processes. In terms of whether or not specific information items are applicable to company, normal practices is to calculate relative scores whereby the actual score is divided by the maximum score possible for that company (Buzby, 1975); therefore, where an item of disclosure is clearly not relevant to a particular firm, the company is not penalised for non-disclosure (Cooke, 1992)[82]. This approach is considered to be a more precise measure than one that supposes that all companies are identical in terms of potential disclosure scores (Akhtaruddin, 2005). In summary, a "dichotomous unweighted approach" focuses on the ratio of the number of items a firm actually disclosed divided by the total that it could have disclosed; given the logic and pedigree of this approach (Chow and Wong-Boren, 1987; Wallace, 1987; Cooke, 1989a; Raffournier, 1995; Al-Bastaki, 1997). It is the method adopted in the present study.

[82] Cooke (1992) called this approach 'a modified dichotomous approach' and argues that this provides "a more realistic assessment of corporate disclosure than a strict dichotomous approach". (p.233)

Chow and Wong-Boren (1987) suggested that weighted and unweithted disclosure indices are interchangeable because their effects are equivalent. Similarly, Choi (1973b), Chow and Wong-Boren, (1987) and Robbins and Austin (1986) obtained the same results using unweighted and weighted indices, while Spero (1979) supported the notion that there are no significant differences between weighted and unweighted disclosure indices. However, Naser and Nuseibeh (2003) found significant differences in the findings derived from weighted and unweighted disclosure indices.

5.4.2.1 The List of Information Items

The most important step in constructing a disclosure index is the identification of a list of items that fully represent the financial reporting practices being examined and permit construction of a reliable and valid index. The usefulness of the disclosure index is critically dependent on the selection of items to be included in the index (Marston and Shrives, 1991). The relevant literature shows that there is no commonly used theory to determine the number and type of information items included in a disclosure index (Wallace and Naser, 1995). In this regard, Coy et al. (2001) identified the lack of a theoretical framework as a weakness in the method. Prior disclosure indices have ranged from 11 items (Tai et al., 1990) to 411 items (Karim and Ahmed, 2005). The entire number of items that can be disclosed in annual reports is very large. However, the items chosen for inclusion in an index in practice are usually rather small subset of the potential population (Marston and Shrives, 1991).

Various methods have been used to select the items for inclusion in the disclosure index. Several researchers select the items by studying International Accounting

Standards (i.e., Cooke, 1989; Mostafa, 1994), while others choose the items by reviewing the accounting literature (i.e., McNally et al, 1982; Al-Bastaki, 1997) and/or by reviewing the country in question's disclosure requirements (e.g. Alrassen, 1999; Naser and Nuseibeh, 2003; Akhtaruddin, 2005; Bribesh, 2006). Disclosure items have also been selected by reviewing corporate annual reports in order to identify best practice (Malone et al., 1993) and via linkage to the information needs of users as indicated in a survey (i.e., Buzby, 1975; Firth 1979). Finally, the recommendations and reports of professional bodies have been consulted to help determine the list of items of information to be included in the index (Hassan and Marston, 2008, p22).

Mandatory Disclosure Index

Most previous literature using the disclosure index method incorporates a disclosure checklist of items mandated by regulation in the nation being studied, such as companies' acts, national (domestic) accounting standards and stock market requirements (see, for instance, Ahmed and Nicholla, 1994; Wallace, 1994; Wallace and Naser, 1995; Owusu-Ansah, 1998; Akhtaruddin, 2005).

As discussed in Chapter 2, the framework of Libyan financial reporting regulation comes from three legal sources, namely the Commercial Code, Income Tax Law and Banking Law. Therefore, a mandatory disclosure checklist was developed based on the 47 items of information that is required via the laws mentioned above and these formed the basis for the mandatory disclosure index. The mandatory disclosure checklist was divided into seven main parts, namely: general information: balance sheet items; contingent accounts and commitments arising from off-balance sheet items; profit and loss account; notes to the financial statements; directors' report and: auditor's report (see Appendix 5.3).

Overall (Mandatory and Voluntary) Disclosure Index

In addition to the analysis of mandatory disclosure, the study also investigates overall financial disclosure practices in Libyan banks' annual reports. Wallace (1988) argues that there is no agreed method of selecting an item of information and so, to make the selection free of bias, one should develop an extensive list of disclosure items. Furthermore, since there is no general theory regarding the number and selection of items (Wallace and Naser, 1995), previous studies often incorporate a large number of disclosure information items in the scoring sheet. In the current study, the overall financial disclosure index includes the following items:

1) Items included in previous studies in developing countries (e.g. Mostafa, 1995; Al-Bastaki, 1997; Alhajraf, 2002; Al-Shayeb, 2003; etc.).
2) Items of information required by the Libyan authorities (via Commercial Law, Income Tax Law and Banking Law).
3) Any other items that an initial review of a sample of Libyan commercial banks' financial reports suggests are regularly reported.

The resultant overall disclosure checklist consisted of 126 financial information items, and these are detailed in Appendix 5.4.

5.4.2.2 Scoring of the Disclosure Index

After determining the list of items, the second step in the index procedure is to assign a score for each item of information, i.e. to choose whether to use a weighted or unweighted construction. For the purpose of this study, an unweighted index was employed, for two main reasons. First, unweighted scores avoid the subjectivity inherent in assessing the relative importance of each disclosure item across all potential user groups of information (Firth, 1979). Second, the unweighted scoring approach has been used and supported in several prior studies (e.g., Al-Bastaki, 1997; Al-Shayed, 2003; Cooke, 1989; Wallace, 1987 and1988; Ahmed and Nicholls, 1994; Wallace et al., 1994; Hossain et al 1995; Raffournier, 1995; Ahmed and Nicholls, 1994; Cooke, 1991; Meek et al., 1995).

Although the dichotomous unweighted scoring procedure has been used extensively in previous studies, Cooke (1989a, 1989b) points out that the procedure is not entirely free of subjectivity. Cooke therefore recommends that the entire corporate annual report should be read first to decide whether a particular item is applicable or not, to avoid penalising a company by assigning a score of zero that would be misleading. This approach was employed in this study, with all banks' annual reports being read in advance. Consequently, the risk of penalising banks for failing to disclose non-applicable items was greatly reduced.

For the current study, each annual report issued by Libyan banks between 2000 and 2006 is studied. Two different scores were calculated in each case; the first is the 'Expected Number of Disclosed Items' (ENDI) and the second is the 'Actual Number of Disclosed Items' (ANDI). The Disclosure Index Ratio (DIR) is then calculated for each bank's annual report by dividing the ANDI by the ENDI, i.e. DIR = ANDI / ENDI.

5.4.2.3 Investigating the Impact of Firm-Specific Characteristics on the Extent of Overall Financial Disclosure

Previous literature suggests that several firm-specific characteristics impact upon the extent of financial disclosure in identifiable ways (see, e.g. Chow and Wong-Boren, 1987; Hossain et al., 1994; Al-Bastaki, 1997; and Al-Shayeb, 2003 and others). While research of this type has been conducted in developed countries since Cerf's pioneering study in 1961, Singh (1983) was the first to undertake work of this nature in developing world. The Firm-specific characteristics employed in the current study were chosen based on the following bases[83]:

1) Association with financial disclosure on clear priori and/or theoretical grounds;
2) Ability to be measured easily for the purpose of statistical analysis;
3) Facilitation of the splitting the sample firms into sub-samples without ambiguity;
4) Data availability on; and
5) Relevant to the socio-economic environment of the nation concerned.

The next subsections review the four independent (explanatory) variables that were chosen on these bases and examined in the study.

(1) Bank Size

Virtually prior related studies have investigated the impact of firm size on the extent of disclosure. In this literature, several different alternative size measures have been adopted. The most common among these are: total assets, net assets, annual sales, turnover, number of shareholders, current assets, fixed assets, capital employed, book value of debt, net income, number of employees and market capitalisation. Cooke

[83] Owusu-Ansah's (1998) study employs the same rationale for selecting firm-specific characteristics.

(1992) argues that there is no overwhelming theoretical justification for any one size variable over another. For the purpose of this study, total assets were selected as the measure of bank size.

(2) Age of Bank

The employment of an age-based variable reflects the assumption that older, well-established firms tend to disclose more information than younger firms (Owusu-Ansah, 1998). This attribute could in theory be examined by using three different proxies: years since the company was established, years since it listing, number of times the company has issued an annual report. For this study, the number of years since the bank was established was selected as the measure of bank age.

(3) Profitability

The use of a profitability variable in previous studies reflects the argument that profitable firms' managers are more likely than loss-making firms to release information in their annual reports to justify their compensation (Cerf, 1961), ensure that their position is secured (Owusu-Ansah 1998), generate praise (Singhvi and Desai, 1971), enhance reputation and avoid costly litigation (Skinner, 1994). Profitability has been examined previously by using proxies such as return on equity, return on total assets, return on total sales and net profit. In this study, net profit was selected as the measure of bank's profitability.

(4) Ownership Structure

Despite of the launch of a privatisation program in Libyan economic entities in the 1990s, the Government still owns the majority of shares in the five commercial banks (see Chapter 2); this ownership percentage might reasonably be expected to have a positive impact on financial disclosure levels, since the government can influence banks to disclose more information. A variety of aspects of ownership structure have been examined in previous studies, including ownership concentration, family ownership, government (State) ownership, foreign ownership, institutional ownership, top ten shareholders' ownership, multinational ownership and managerial ownership. Given the Libyan context, where state-ownership is a defining characteristic of some, but not all[84], firms a dichotomous variable was employed reflecting whether or not the bank concerned was state-owned or private was selected as measure of ownership structure.

5.4.2.4 Research Sample

The current study involves an empirical investigation of the degree of mandatory and the overall (mandatory and voluntary) financial disclosures made by Libyan banks across seven year period 2000-2006. To achieve the aims of the thesis, it was decided to include all Libyan commercial banks, to provide a comprehensive picture of the extent of financial disclosure and to generate a sample large enough to perform meaningful statistical analysis. The research sample therefore includes the following State and private banks[85]: the National Commercial Bank, the Al-Umma Bank, the Gumhouria Bank, the Sahara Bank, the Wahda Bank, the Development and Commerce Bank, the Aman Commerce and Investment Bank, the Alejmaa Alarabi Bank, the Mediterranean Bank, the Alsaraya Trading and Development Bank and the Commercial Arab Bank.

[84] The bank is regarded here as being State-owned when more than 50% of its shares are owned by Government.

[85] For more information about these banks see Chapter 2.

Annual reports for seven years (2000-2006) were collected from the eight banks that were established before 2000 (with the exception of one bank (Alsaraya Trading and Development Bank) where the annual reports for only five years were available and accessible), while for banks established after 2000, only the annual reports for the shorter time periods were collected. Of the 12 commercial banks, one (Al-Wafa Bank) was excluded from the research sample because its annual reports are not available. As Table 5.2 shows, a total of 63 sets of useable annual reports[86] for Libyan commercial banks were gathered; the research sample therefore represents 91.7% of the population[87]. All annual reports were collected in person after several visits made by the researcher to each bank.

Table 5.2: Libyan Commercial Banks with Useable Annual Reports

S/N	Name of Bank	Years						
		2000	2001	2002	2003	2004	2005	2006
1	Wahda Bank	X	X	X	X	X	X	X
2	Sahara Bank	X	X	X	X	X	X	X
3	Al-Umma Bank	X	X	X	X	X	X	X
4	Gumhouria Bank	X	X	X	X	X	X	X
5	National Commercial Bank	X	X	X	X	X	X	X
6	Development and Commerce Bank	X	X	X	X	X	X	X
7	Mediterranean Bank	X	X	X	X	X	X	X
8	Commercial Arab Bank	X	X	X	X	X	X	X
9	Alsaraya Trading and Development Bank	---	---	X	X	X	X	X
10	Aman Bank for Commerce and Investment	---	---	---	---	---	---	X
11	Alejmaa Alarabi Bank	---	---	---	---	---	---	X

Note: This table lists those Libyan commercial banks with useable annual reports, indicated with an 'X'.

86 All of the annual reports were in the Arabic language, with the exception of one bank (Development and Commerce Bank) which also reports in English.

87 The United Bank for Trade and Investment was excluded from the analysis in Table 5.2 since it was not established until 2007, after the present study had begun.

5.5 Hypotheses Development

Nachmias and Nachmias (1992) defined a hypothesis as a "tentative answer to a research problem, expressed in the form of a relation between independent and dependent variables" (p.61). These authors also argue that hypotheses can be derived prescriptively via deduction from theories, descriptively via direct induction from observations, or via a combination of these approaches. In the deductive method, the researcher forms certain 'normative' expectations or hypotheses from a general premise or theory and collects evidence to investigate those expectations or test those hypotheses. With the inductive method, the researcher begins with the data at hand and designs a 'positive' research method to investigate the generalisability of the evidence.

For the purpose of the current study, the researcher adopted a deductive approach by forming expectations or hypotheses in a prescriptive manner and collecting evidence to investigate expectations and test hypotheses. The chosen hypotheses reflect the decision-usefulness theory and positivistic approach adopted in the thesis. In particular each hypothesis focused on a specific objective issue regarding current disclosure practices in the Libyan banking sector that reflected the role of financial reporting in a conventional decision-usefulness framework. Table 5.3 details and summarises each of the null hypotheses adopted.

Table 5.3: The Null Hypotheses of the Research Study

S/N	Null Hypotheses
H1	There is no significant difference among the groups of preparers in terms of the importance of Libyan banks' annual reports for different user groups.
H2	There is no significant difference among the groups of preparers in terms of the purpose of financial disclosure in Libyan banks' annual reports.
H3	There is no significant difference among the preparer groups in terms of the importance that they attach to the different sections of Libyan banks' annual report for financial decision-making.
H4	There is no significant difference among the groups of preparers in terms of the influence of potential interested parties on Libyan banks' financial disclosure practices and their choice of accounting policies.
H5	There is no significant difference among the groups of preparers in terms of the influence of the specified factors on financial disclosure practices within Libyan bank's annual reports and their choice of accounting policies.
H6	There is no significant difference among the groups of preparers in terms of the significance of specific problems for users of Libyan banks' annual reports.
H7	There is no significant difference among the groups of preparers in terms of perceptions about specific factors that might restrict the quantity of financial disclosure in Libyan bank's annual reports.
H8	There is no significant difference among the groups of preparers about the degree of Libyan banks' compliance with existing mandatory disclosure requirements.
H9	There is no significant difference among the preparer groups in terms of perceptions of the quality and quantity of financial disclosure in Libyan banks' annual reports.
H10	There is no significant difference among the groups of preparers in terms of the quality and quantity of financial disclosure in Libyan banks' annual reports relative to other sectors.
H11	There is no significant difference among the groups of preparers about the importance of the LSM's role regarding Libyan banks' financial disclosure practices.
H12	There is no significant difference among the preparers of accounts about the effects of recent economic reforms on financial disclosure practices in Libyan banks' annual reports.
H13	There is no significant difference among the groups of preparers about the normative statements regarding financial disclosure practices within Libyan banks' annual reports.
H14	There is no significant difference among the groups of users regarding their frequency of annual reports usage for making financial decisions.
H15	There is no significant difference among the groups of users in terms of the perceived purpose of Libyan banks' annual reports.
H16	There is no significant difference among the groups of users in terms of their importance attached to various sources of financial information.
H17	There is no significant difference among the groups of users in terms of perceptions of the quantity and quality of financial disclosure in Libyan banks' annual reports.

H18	There is no significant difference among the groups of users in terms of perceptions about the quality and quantity of financial disclosure in Libyan banks' annual reports relative to other sectors.
H19	There is no significant difference among the groups of users in terms of the perceived importance they attach to different criteria that might affect the quality of financial information disclosed in Libyan banks' annual reports.
H20	There is no significant difference among the groups of users in terms of the significance of specific problems with using Libyan banks' annual reports.
H21	There is no significant difference among the groups of users in terms of the importance that they attach to different parts of Libyan banks' annual reports for decision-making.
H22	There is no significant difference among the groups of users regarding the understandability of different sections of Libyan banks' annual reports.
H23	There is no significant difference among the groups of users about the reliability of different sections of Libyan banks' annual reports.
H24	There is no significant difference among the groups of users about the relevance of different sections of Libyan banks' annual reports.
H25	There is no significant difference among the groups of users about the comparability of different sections of Libyan banks' annual reports.
H26	There is no significant difference among the groups of users about the materiality of different sections of Libyan banks' annual reports.
H27	There is no significant difference in views among the six user groups about the degree of Libyan banks' compliance with mandatory disclosure requirements.
H28	There is no significant difference among the groups of users about the importance of the LSM's role regarding financial disclosure practices by Libyan banks.
H29	There is no significant difference among the groups of users about the effects of recent economic reforms on financial disclosure practices in Libyan banks' annual reports.
H30	There is no significant difference among the groups of users about normative statements regarding financial disclosure practices in Libyan banks' annual reports.
H31	Libyan banks do not comply fully with mandatory disclosure requirements set by Libyan authorities.
H32	There is no significant relationship between the size of a Libyan bank and the level of disclosures in its annual report.
H33	There is no significant relationship between the age of a Libyan bank and the level of disclosures in its annual report.
H34	There is no significant relationship between the profitability of a Libyan bank and the level of disclosures in its annual report.
H35	There are no significant differences in the levels of disclosure in the annual reports of State-owned banks and private banks.

***Note:** this table details and summarises each of the null hypothesis adopted in the current study.*

5.6 Reliability and Validity

5.6.1 Reliability

Carmines and Zeller (1991, p.11) define reliability as concerning "the extent to which an experiment, test, or any measuring procedure yields the same results on repeated trials", while Mckinnon (1988, p.36) states that "reliability is concerned with the question of whether the researcher is obtaining data on which she or he can rely". Since it may be impractical to arrange for respondents to be examined on the same question on two occasions to measure reliability (Reda, 1992), an alternative method known as the "internal consistency" approach has been developed and is widely considered to be an excellent technique for evaluating the reliability of a measurement instrument (Carmines and Zeller, 1991). The most popular test for internal consistency is the "coefficient alpha" (Botosan, 1997). Coefficient alpha ranges between zero and one; the higher the coefficient, the more reliable the instrument. The literature suggests .70 as the minimum acceptable reliable level (De Vaus, 1990), although a preferable reliable figure of .80 or above is also sometimes quoted (Botosan, 1997). The Coefficient alpha test was carried out on both the preparers' and users' questionnaire, with figures of 0.914 and 0.931 respectively resulting. The results therefore demonstrate a high level of internal consistency in the responses of both groups.

5.6.2 Validity

Carmines and Zeller (1991, p.17) define validity as "the extent to which any measuring instrument measures what it is intended to measure"[88], while Mckinnon (1988, p.36) states that "validity is concerned with the question of whether the researcher is studying

[88] Oppenheim (1996) provides a similar definition.

the phenomenon she or he purports to be studying". Content validity, which is adopted in the current study, is one of the three most common approaches to validity checking. The process involves seeking subjective judgment and opinions from non-experts and/or professionals (Carmines and Zeller, 1991). In the current study, the validity of the questionnaires was investigated by a number of practical professionals and experienced participants who were targeted in the pilot study detailed earlier in this chapter.

5.7 Statistical Procedures

5.7.1 Questionnaire Analysis

The objective of this section is to outline the set of statistical analyses and tests which were adopted in the empirical analysis of the questionnaires. There are two broad classes of statistical test, parametric and non-parametric. Zikmund (2000) argues that the distinction between the two types relies on the fundamental assumptions about the data to be analysed. More specifically, Field (2000) argues that there are four fundamental assumptions underlying the parametric notion. These are as follows:

a) The data should be normally distributed.

b) The data variances should be homogeneous not change systematically.

c) The data gathered should be based on an interval scale.

d) Data from different subjects should be independent.

If one of the parametric data assumptions is not met, a non-parametric test can be employed instead; non-parametric tests are, by definition, assumption-free (Field, 2000). Field also notes, however, that parametric tests are more powerful than non-parametric tests[89] and it is erroneous to use parametric tests with non-parametric data. As the response data here was non-normal, non-parametric analysis was used extensively. For example, in the analysis of questionnaire responses across user groups, the Kruskal-Wallis H test is -the non-parametric version of the parametric one-way ANOVA test- was used to evaluate the significance of differences in the sample means. The test was conducted throughout using a conventional 5% confidence level. A significant value for the Kruskal-Wallis H statistic indicates that at least one of the group means is different from at least one of the others.

5.7.2 Disclosure Index Analysis

The main statistical tools used in Chapter 8, where the disclosure index analysis is reported, are primarily descriptive in nature, focussing on, measures of location and dispersion conventional. In addition to these, the impact of the explanatory variable outlined in Section 5.4.2.3 is investigated in two ways, first one-at-a-time via correlation between each exogenous variable and the index values and, second, simultaneously through a panel regression model:

$$Y_{it} = \alpha_i + \beta_1 X_{1it} + \beta_2 X_{2it} + \beta_3 X_{3it} + \varepsilon_{it}$$

Where X_1-X_3 are the three continuous explanatory variables, α is the constant term and ε_{it} is the error term. This form of analysis allows for the direct impact of each variable on disclosure to emerge controlling for inter-temporal differences. Further details on

[89] Smith (2003) suggests several advantages for the use of non-parametric tests as follows:

- Non-parametric tests can be used on all types of data.
- Non-parametric test is easy to use if the size of sample is small.
- Non-parametric tests make fewer -and less strict- assumptions than do parametric tests.

this method and the bivariate correlation analysis are provided in Chapter 8 when the techniques are applied to the data.

5.8 Summary

This chapter has discussed the research design employed in this study and its underlying paradigm and methodology. The questionnaire design, pilot test, distribution and collection procedures and subject groups were described in detail in this chapter, as was the disclosure index method employed to measure Libyan banks' disclosure levels. Finally, the chapter explained the statistical tests employed to examine the hypotheses empirically in the following chapters. The first of these, Chapter 6, details the results of the preparers' questionnaire, while Chapter 7 performs the same task for the users' version. Chapter 8 then presents and discusses the disclosure index-based findings.

Chapter Six

Perceptions of Preparers about Financial Disclosure Practices in Libyan Banks' Annual Reports: Questionnaire Analysis and Discussion

6.1 Introduction

In the methodology and methods chapter, the research hypotheses, instruments used to collect the data and the sample of users, preparers and banks employed in the empirical section of the thesis were outlined; the following three chapters report the results of this analysis. This chapter attempts to provide insights regarding the perceptions of preparers of Libyan banks' annual reports, while Chapter 7 investigates the perceptions of users of Libyan banks' annual reports. Chapter 8 then outlines the level of financial disclosure in Libyan banks' annual reports and the degree of Libyan banks' compliance with mandatory disclosure requirements on the basis of a quantitative disclosure index-based investigation.

The data analysis in the present chapter is based on a questionnaire survey sent to four key groups of preparers of Libyan banks' annual reports: General Managers; Deputy General Managers; Managers of Accounting Departments and Accountants[90]. The chapter provides a full descriptive analysis of the data and examines differences in the perceptions of the four types of preparers about financial disclosure practices in Libyan banks' annual reports. Section 6.2 of the chapter outlines the findings, while section 6.3 discusses the most important implications arising from them.

[90] An explanation for the selection of these particular preparer groups is provided in Chapter 5.

6.2 Questionnaire Results

6.2.1 The Profile of the Preparers

In Section 1 of the questionnaire[91], respondents were asked several questions regarding their occupations, age, experience, qualifications, educational level and place of study. It is generally considered to be useful to have an overall idea of the socio-economic and demographic characteristics which might provide insights regarding the source of diversity in a sample of questionnaire responses.

The first part of Section 1 dealt with the broad issue of preparers' occupation. An inspection of Table 6.1, which summarises these results, reflects the targeting of four specific types of preparers, (based upon differences in the likely nature and extent of involvement in the preparation of Libyan banks' annual reports), i.e. general managers, deputy general managers, managers of accounting departments and accountants.

The table illustrates the distribution of the respondents across the four groups. Of the 54 respondents, 7 (13%) were general managers, 6 (11%) were deputy general managers, 12 (22%) were managers of accounting departments and the remaining 29 (53%) represented accountants.

[91] A copy of the questionnaire is provided in Appendix 5.1.

Table 6.1: The Personal Profile of Target Preparer Groups

Description	Preparer-groups				Whole sample
	General managers	Deputy general managers	Managers of accounting departments	Accountants	
Sample size					
Count	7	6	12	29	54
Percentage	13	11.1	22.2	53.7	100
Age (years)%					
22-25	-	-	-	24.1	13.0
26-35	-	-	25.0	41.4	27.8
36-45	28.6	33.3	16.7	20.7	22.2
Over 45	71.4	66.7	58.3	13.8	37.0
Experience (years) %					
Less that 1	-	16.7	-	10.3	7.4
1-5	-	-	16.7	41.4	25.9
5-10	-	33.3	16.7	20.7	18.5
10-15	14.3	-	-	3.4	3.7
Over 15	85.7	50.0	66.7	24.1	44.4
Professional Qualification %					
Yes	71.4	83.3	91.7	89.7	87.0
No	28.6	16.7	8.3	10.3	13.0
Level of Education %					
Diploma	28.6	33.3	25.0	37.9	33.3
Bachelors Degree	57.1	50.0	66.7	44.8	51.9
Masters Degree	-	-	-	13.8	7.4
PhD	-	-	-	-	-
Other (Advanced Diploma)	14.3	16.7	8.3	3.4	7.4
Place of Study %					
Libya	85.7	100.0	91.7	93.1	92.6
Other Arabic Country	14.3	-	8.3	3.4	5.6
UK	-	-	-	-	-
USA	-	-	-	3.4	1.9

Note: this table details the numbers of respondents in each of the four preparer groups both in total and when disaggregated on various characteristics.

As can be seen from Table 6.1, most of the respondents (37%) were older than 45, with 27.8% aged between 26 and 35 years old and 22.2% between 36 and 45. These averages mask some variability across the sample; for example, amongst the accountants, less than 14% were in the oldest group, compared with more than 70% of general managers. These, and other differences outlined below, illustrate the importance of identifying groups of respondents rather than assuming that the sample are homogeneous both in background and likely response to the questionnaire. With regard to time spent in current position, Table 6.1 reveals that 44.4% of the participants had more than 15 years of experience, while only 7.4% of participants reported having been in place less than one year. Twenty five per cent of participants had experience of between 1-5 years; 18.5% had between 5-10 years and the remaining 3.7% of participants had experience spanning 10-15 years. Again, the accountants appear to be markedly different from the rest of the sample, in this case with untypically low levels of experience. With regard to qualifications, inspection of Table 6.1 indicates that 87% of the whole sample of participants is professionally qualified in accountancy or finance, although the figures for individual groups ranged from 91.7% (for managers of accounting departments) to 71.4% (for general managers).

Table 6.1 also outlines the educational level of participants. More than half of the sample (51.9%) had been educated to Bachelor's degree level, while 7.4% had a Masters degree. This evidence suggests that the majority of participants might be characterised as well educated, when considered in conjunction with the findings that 33.3% of participants had a diploma and 7.4% an advanced diploma. For three of the four groups, none of the respondents had a Masters degree, but 13.8% of the accountants had gained such a qualification. This result might be explained on the grounds that Masters programmes have only recently been offered by Libyan universities and academies and some accountants have been taking these degrees to enhance their career prospects. Additionally, Libyan banks' management have provided encouragement and financial support to their younger employees to help with the attainment of higher degree certificates (e.g., Wahda Bank). In contrast, the remaining three groups are all managerial in nature and, as outlined earlier, are older and have been in place longer, suggesting that in terms of both time - and the need for rapid promotion - the level of higher degree qualifications are as might reasonably have been expected.

Finally, Table 6.1 also demonstrates the distribution of participants according to their place of study. The vast majority of the sample (92.6%) completed their studies and obtained their higher degrees from Libya, while 5.6% of participants were educated in other Arab countries (Jordan or Egypt) with the remaining 1.9% having undertaken their studies in the USA; none of the respondents studied in the UK. This evidence might again be argued to be expected, since the vast majority of respondents have either diploma or Bachelor's degree (undergraduate level) and the Educational People's Committee[92] has not sent Libyan students abroad for undergraduate study since the 1980s.

6.2.2 The Potential Users of Libyan Banks' Annual Reports

The second section of the questionnaire concentrated on the attitudes and perceptions of the preparers of Libyan banks' annual reports regarding the importance various potential users place on the documents. From a decision-usefulness perspective, the annual reports of Libyan banks might be employed for a range of purposes, for instance: for making investment decisions; as the focus of academic interest; to

[92] The Educational People's Committee is the body responsible for education programmes and for sending Libyan students to study outside the country. In 2006, it resumed sending Libyan students for undergraduate study abroad.

underpin bank loan approvals; for taxation purposes; and more generally to evaluate the performance of the bank by various user groups. To identify the important users in this context, the participants were given a list of 11 potential groups and asked to indicate the importance that they attach to each one. The participants were asked to express their views by using a five-point Likert-type scale, where 1 indicates "not important at all" and 5 indicates "very important". The views of the four groups of preparers were compared using Kruskal-Wallis statistics; the following null hypothesis underpins this latter part of the analysis:

H1: There is no significant difference among the groups of preparers in terms of the importance of Libyan banks' annual reports for different user groups.

Table 6.2: Preparers' Views about the Importance of Libyan Banks' Annual Reports for Different User Groups

User-groups	Preparer-groups				Whole sample			
	GM	DGM	MAD	AC	Mean	R	SD	KWS p-value
Management and board of directors	4.714	**4.833**	4.083	**4.448**	**4.444**	1	0.861	0.399
Bank shareholders	**4.852**	4.500	4.333	4.345	4.426	2	0.767	0.293
External auditors	4.714	3.833	**4.667**	4.179	4.321	3	0.803	0.065
Tax authorities	4.714	4.000	4.417	4.000	4.185	4	0.754	0.057
Academics and other researchers	4.143	3.833	4.454	4.103	4.151	5	0.744	0.466
Central Bank officers	4.429	3.833	4.091	3.897	4.000	6	0.940	0.494
Creditors	4.429	3.833	4.000	3.897	3.981	7	0.961	0.531
Employees and labour unions	3.571	3.500	3.583	3.893	3.736	8	0.944	0.591
Government organizations and institutions	4.286	3.667	3.636	3.518	3.667	9	1.013	0.399
Customers	4.143	3.333	3.500	3.586	3.611	10	1.123	0.527
Newspapers and Magazines	4.143	2.833	3.364	3.241	3.340	11	1.159	0.194

Notes: R = Rank; SD = Standard Deviation; KWS=Kruskal-Wallis H significance level; GM=General managers; DGM=Deputy general managers; MAD=Managers of accounting departments; AC=Accountants. Responses are based on a Likert scale where 1 = not important at all; 5 = very important.

At the whole sample level, inspection of Table 6.2[93] demonstrates that the respondents ranked management and the board of directors as the most important user of the annual reports of Libyan banks, with an overall mean of 4.444, followed by bank shareholders, and the external auditors (with means of 4.426 and 4.321 respectively). These overall means hide a certain degree of variation in the responses of the four preparer groups. However, for example, only two out of the four (general managers' deputies and accountants) indicated that management and the board of directors are the most important user group; in contrast, general managers suggested that banks' shareholders are the most important user group, while external auditors were considered by accounting departments' managers to be the most important. The other potential user groups, namely: creditors; employees and labour unions; government organisations and institutions; customers and newspapers and magazines were typically considered to be of less importance. All preparer-groups in the sample ranked newspapers and magazines as the least important user group, with the exception of general managers who ranked employees and labour unions as the least important. This result may well reflect the fact that specialised business newspapers and magazines are rare in Libya and news about business is normally mentioned only within local newspapers or magazines that controlled by Government.

These findings are consistent with the results of previous studies in developing countries such as those of Abu-Nassar and Rutherford (1995) who found that the management and boards of directors were regarded by preparers of accounts in Jordanian listed companies as being the most important users of annual reports

[93] Appendix 6.1 provides a summary of the key findings of Tables 6.2-6.14.

(followed by shareholders). However, the evidence is slightly different from Yaftain and Mirshekary's (2005) Iranian study which found that preparers considered shareholders to be the most important users of financial annual reports, followed by management and boards of directors. The results of a Hong Kong-based study by Ho and Wong (2003) are markedly different from those of the current analysis: in particular, institutional shareholders were perceived as being the most important users, followed by bankers and creditors, while management/directors and individual shareholders were ranked as the third and fourth most important user groups respectively.

Notwithstanding the differences in pairs of results noted above, a Kruskal-Wallis *H* test was conducted for each of the 11 different potential user groups to measure more formally the extent of consensus in all four groups of preparers' perceptions about the importance of different users. Inspection of Table 6.2 reveals that there were no statistically significant differences at the 5% level among preparer groups about the potential users. Therefore, the results do not support rejection hypothesis *H1*, i.e. that there is no significant difference among groups of preparers with regard to the importance attached by users to banks' annual reports.

6.2.3 The Main Purpose of Annual Reports

A number of authors take the view that preparers should not only identify user groups, but should also carefully consider the underlying reasons for employing financial data in the decision-making process (Mirshekay and Saudagaran, 2005). The respondents were therefore presented with a list of possible purposes of annual reports, reflecting those commonly offered as such in the literature, and asked to indicate the importance that they attach to each one. A five-point Likert scale was again employed, where 1 means "not important at all" and 5 means "very important". As in the previous section, a Kruskal-Wallis *H* test was used to examine a formal null hypothesis about the difference in responses across preparer groups:

H2: There is no significant difference among the groups of preparers in terms of the purpose of financial disclosure in Libyan banks' annual reports.

Table 6.3: Preparers' Views about the Purposes of Libyan Banks' Annual Reports

Purposes	Preparer-groups				Whole sample			
	GM	DGM	MAD	AC	Mean	R	SD	KWS p-value
To assist the CBL for monitoring and supervision purposes	4.714	4.833	**4.750**	**4.500**	**4.623**	1	0.489	0.269
To assist managers in running their businesses	4.571	4.667	**4.750**	4.429	4.547	2	0.539	0.358
To assist potential investors with future decisions	**4.857**	**5.000**	**4.750**	4.207	4.500	3	0.666	0.002*
To help existing investors in monitoring their investments	4.571	**5.000**	4.500	4.241	4.426	4	0.632	0.033*
To provide information to Libyan tax authorities	4.000	3.833	4.417	4.241	4.204	5	0.898	0.848
To assist creditors with future decisions	4.286	4.333	4.167	4.000	4.111	6	0.718	0.685
To aid academics and researchers in teaching and research	1.143	3.833	4.333	3.828	3.981	7	0.879	0.369
To assist creditors in monitoring their interests	4.000	4.167	3.917	3.931	3.963	8	0.889	0.942
To assist employees in protecting their interests	3.429	3.167	3.750	4.148	3.846	9	0.978	0.057
To provide information about corporate governance standards	3.440	2.500	3.909	3.384	3.440	10	1.128	0.116

Notes: R = Rank; SD = Standard Deviation; KWS=Kruskal-Wallis H significance level; GM=General managers; DGM=Deputy general managers; MAD=Managers of accounting departments; AC=Accountants. Responses are based on a Likert scale where 1 = not important at all; 5 = very important. A indicates significance of the 5% level on the basis of a two-tailed test.*

Table 6.3 reveals that respondents as a whole rated the provision of information to assist the CBL for monitoring and supervision purposes as the main purpose of annual reports, with an overall mean of 4.623. These results are arguably not surprising because Libyan banks are required by law to submit their audited financial statements within four months of the end of their fiscal year to the CBL and the financial penalties for non-compliance are high (Article, 85 of Banking Law No. 1 of 2005)[94]. The next highest mean scores related to the suggestions that the main purpose of the reports are to: assist managers in running their businesses; assist potential investors with future decisions; and help existing investors in monitoring their investments (with means of 4.547, 4.500 and 4.426 respectively). However, only two out of the four groups of preparers (accounting departments' managers and accountants) who participated in the survey ranked this as the main purpose of annual reports; in contrast, general managers attached the most importance to the role of financial reports in providing information to potential investors to help with future decision-making. General managers' deputies ranked provision of information to investors (existing and potential) as most important. This evidence is consistent with that in Table 6.2 where these preparer groups highlighted shareholders as attaching considerable importance to banks' financial statements. Taken together, these results suggest that a western-style shareholder focus exists in the thinking of Libyan managers, certainly to a greater extent than in the minds of accountants.

As can be seen from Table 6.3, general managers and general mangers' deputies ranked the suggestion that the main purpose of the annual report is to assist managers as only

[94] Failure to submit the statements mentioned in Articles 85 of this law by the designated deadlines or by the deadlines set by the Central Bank of Libya are punishable by a fine of LD1000-LD10,000 (Article, 107).

the third and fourth most important respectively. This result might be explained by the fact that these two groups may have a variety of internal communication media that can be used for assisting the decision-making process. In contrast, both accountants, and accounting departments' managers, ranked the same proposal, as being of greater importance. This finding might be explained on the grounds that those involved in the accounting process -as preparers of the annual report- are aware of the poor (and efficient) internal information systems existing in the majority of Libyan banks and perceive a need for managers to make extensive use of the (possibly) more reliable external financial reports.

Participants in the survey attached low importance to the proposal that the main purpose of disclosure in Libyan banks' annual reports is to provide information about corporate governance standards, (mean responses ranged from just 2.5 to 3.9). However, the lowest mean in Table 6.3 - by some distance - was the 1.143 recorded by general managers for the suggestion that the main purpose of the reports is to aid academics and researchers in teaching and research. The first result might be explained on the grounds that respondents might not be familiar with the concept of "corporate governance standards" given that most (but not all) of the recent extensive literature on this notion focuses on developed economies (see, e.g. Mallin, 2007). The latter result might reflect a belief among general managers that academic research about banks in Libya is virtually non-existent (Ahmed and Gao, 2004) and annual reports may therefore not have any role in this context. However, the means vary across the groups, and this issue is returned in the discussion of the KWS statistics later.

Regarding the extent to which differences in responses among the groups of preparers were significant, the Kruskal-Wallis test result suggested that the variance in views regarding the main purposes of annual reports being both: (i) to assist potential investors with future decisions; and (ii) to help existing investors in monitoring their investments was non-random. Therefore, in these cases the null hypothesis, which suggests that there is no significant difference among the groups of preparers, is rejected for these two statements. As the preceding discussion highlights, the most obvious pattern in responses to these statements was the stronger support exhibited by the managerial preparers than the accountants. The non-significant result for the statement regarding the importance of banks' annual reports for academics suggest that the very low mean (of 1.143) recorded by the general managers is not typical once the distribution of the data is taken into account.

6.2.4 The Importance of Different Sections of Libyan Banks' Annual Reports for Financial Decision-Making

The respondents were next asked about the importance that they assign to eight specific parts of Libyan banks' annual reports when making financial decisions. The respondents were again required to indicate their views using a five-point Likert scale, where 1 indicates "not important at all" and 5 indicates "very important". The relevant null hypothesis in terms of inter-group consistency in responses was:

H3: There is no significant difference among the preparer groups in terms of the importance that they attach to the different sections of Libyan banks' annual report for financial decision-making.

Table 6.4: The Importance of Different Sections of Libyan banks' Annual Reports for Financial Decision-Making

Sections of annual report	Preparer groups				Whole sample			
	GM	DGM	MAD	AC	Mean	R	SD	KWS p-value
Balance Sheet	**4.714**	**5.000**	4.750	**4.862**	**4.833**	1	0.505	0.492
Income Statement	4.429	4.833	**4.833**	4.655	4.685	2	0.609	0.438
Auditor's Report	4.429	4.333	4.583	4.621	4.556	3	0.769	0.510
Statement of Cash Flows	4.286	4.333	4.818	4.379	4.453	4	0.722	0.320
Directors' Report	4.000	4.667	4.417	4.448	4.407	5	0.659	0.377
Notes to the Financial Statements	4.143	4.000	4.583	4.379	4.352	6	0.756	0.461
Accounting Policies	4.286	4.000	4.250	4.000	4.093	7	0.853	0.653
Statement of Retained Earnings	4.143	3.667	4.250	4.069	4.074	8	0.749	0.509

Notes: *R = Rank; SD = Standard Deviation; KWS = Kruskal-Wallis H significance level; GM = General managers; DGM = Deputy general managers; MAD = Managers of accounting departments; AC = Accountants. Responses are based on a Likert scale where 1 = not important at all; 5 = very important.*

Table 6.4 indicates that the balance sheet statement was ranked by the respondents as the most important section of the annual report for financial decision-making (with an overall mean of 4.833), followed by the income statement and auditor's report (4.685 and 4.556 respectively). However, while the other three groups, managers of accounting departments reported the income statement to be more important than the balance sheet. The evidence as a whole is consistent with the overriding importance of balance sheet strength to financial institutions, particularly in developing countries, where liquidity issues have caused several crises in the past. In this context, the results are also consistent with the findings in Table 6.3 where the main purpose of Libyan banks' annual reports was seen as helping authorities with monitoring and supervision.

The evidence in Table 6.4 also indicates that the statement of retained earnings is seen as the least important section of the annual report. This latter finding may reflect the dominant importance of the balance sheet as well as the restrictions in place on investment and dividend policies in the Libyan banking sector and the extent to which such firms can access income reserves on a discretionary basis.

Overall, the findings reflected in Table 6.4 are consistent with the results of Yaftain and Mirshekary's (2005) study which found that the balance sheet was regarded by preparers of financial statements in Iran as the most important section of the annual report for financial decision-making (followed by accounting policies and the income statement).

As regards hypothesis *H3*, inspection of Table 6.4 reveals that there were no statistically significant differences at the 5% level among the four groups of preparers regarding the importance of different parts of the annual reports and the null hypothesis cannot therefore be rejected; this evidence is consistent with that in Table 6.2, where there were no significant differences among the four preparer groups in terms of the importance of annual reports to different users (who might place their primary focus on different parts of the reports).

6.2.5 The Influence of Different Participants on Decisions regarding the Choice of Accounting Policies and Financial Disclosure Practices in Libyan Banks' Annual Reports.

The directors of Libyan banks are theoretically and legally responsible for preparing and issuing their annual reports and choosing accounting policies. However, in practice, there are other participants that might influence decisions regarding the choice of accounting policies and the financial disclosure practices. The respondents were therefore presented with a list of potential participants, tailored to a Libyan context that may logically influence decisions regarding these choices. The respondents were asked to assess the extent of the influence of each one using a five-point Likert scale where 1 indicates "not influential at all" and 5 indicates "very influential". A Kruskal-Wallis test was again used to test a formal null hypothesis about differences in views across the groups of preparers, in this case:

H4: There is no significant difference among the groups of preparers in terms of the influence of potential interested parties on Libyan banks' financial disclosure practices and their choice of accounting policies.

Table 6.5: Preparers' Views about the Source of Influences on Libyan Banks' Financial Disclosure Practices and Choice of Accounting Policies

Source of influence	Preparer groups				Whole sample			
	GM	DGM	MAD	AC	Mean	R	SD	KWS p-value
Board of directors	4.429	**4.500**	**4.833**	4.448	**4.537**	1	0.693	0.396
Managers of accounting departments	4.286	4.333	4.583	4.536	4.491	2	0.669	0.718
Central Bank officers	**4.857**	**4.500**	4.500	4.276	4.426	3	0.903	0.451
External auditors	4.571	3.500	4.417	4.103	4.167	4	1.177	0.361
Bank's accountants	4.143	3.833	4.333	4.034	4.093	5	1.051	0.622
Academics	3.857	3.333	3.500	3.138	3.333	6	1.197	0.586

Notes: *R = Rank; SD = Standard Deviation; KWS = Kruskal-Wallis H significance level; GM = General managers; DGM = Deputy general managers; MAD = Managers of accounting departments; AC = Accountants. Responses are based on a Likert scale where 1 = not influential at all and 5 = very influential.*

Table 6.5 indicates that the board of directors were considered by respondents as a whole as having the strongest influence on financial disclosure practices and choice of accounting policies with an overall mean of 4.537 (followed by managers of accounting departments and Central Bank officers, as reflected by the reported mean scores 4.491

and 4.426 respectively). However, the averages again mask some variation across the four preparer groups. For instance, only two out of the four (the deputy general managers and the managers of accounting departments) suggested that the board of directors are the most influential group of participants; in contrast the general managers ranked Central Bank officers as the most influential group of participants, while the accountants rated the managers of accounting departments as the most important. The lowest level of influence was perceived by all groups as coming from academics[95]. These results may reflect the reality of the relationship between accounting practices and corporate (versus academic) influence in developing countries (Yapa, 1999). However, the particularly strong level of influence attributed by both managerial-based preparer groups to Central Bank officers is consistent with the evidence in Tables 6.3 and 6.4 regarding the importance these groups attach to the balance sheet and the CBL as a user group; i.e. the importance of the Central Bank in monitoring (primarily via the balance sheet) individual bank strength.

These results are not consistent, however, with many of the findings of previous studies in developing countries such as those of Nassar and Rutherford (1995) and Yaftain and Mirshekary (2005), which found that the board of directors are perceived as having only a moderate influence on decisions regarding disclosure practices and choice of accounting policies, while external auditors were ranked by same participants as the most influential. In addition, Ho and Wong (2003) reported the chief finance officer or finance director as being the most influential group.

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[95] According to El-Sharif (2006), the absence of academics from organisations that oversee and regulate the accounting profession in Libya is one of the obstacles to the latter's development.

Scrutiny of the Kruskal-Wallis results Table 6.5 reveals that there was a degree of consensus among the preparers; none of the H-statistics was significant and the null hypothesis could not be rejected. In other words, although there are some obvious differences in the general pattern of responses from the four respondent groups when considered on a group by group basis, these differences in medians are not spread across all four groups.

6.2.6 The Influence of Certain Factors on Accounting Policies Choice and Financial Disclosure Practices in Libyan Banks' Annual Reports.

The Libyan government has enacted several laws and acts to regulate financial disclosure practices in banks' annual reports (see Chapter 2). These rules and acts are expected to influence financial reporting practices and accounting policies choice. The three pieces of Libyan regulations, along with two environmental factors –international accounting developments and corporate competition-, that were thought likely to influence financial disclosure practices and accounting policies choice were presented to the groups of preparers. The respondents were then asked to rank these factors according to their influential using a five-point Likert scale, where 1 indicates "not influential at all" and 5 indicates "very influential". A Kruskal-Wallis test was employed to test the following null hypothesis:

H5: There is no significant difference among the groups of preparers in terms of the influence of the specified factors on financial disclosure practices within Libyan bank's annual reports and their choice of accounting policies.

Table 6.6: Preparers' Views about the Influence of Regulatory and Environmental Factors on Financial Disclosure Practices and Accounting Policies Choice within Libyan Banks' Annual Reports

Influential Factors	Preparer groups				Whole sample			
	GM	DGM	MAD	AC	Mean	R	SD	KWS p-value
Banking Law No. 1 (2005)	**4.714**	4.000	4.545	4.154	**4.300**	1	0.789	0.078
Income Tax Law	4.143	3.667	**4.727**	**4.172**	4.226	2	1.012	0.164
Commercial Law	4.429	**4.500**	4.400	3.965	4.173	3	0.923	0.556
Developments in international accounting practices	4.429	3.833	4.182	4.000	4.075	4	1.035	0.758
Corporate competition	4.286	3.333	3.818	3.965	3.906	5	1.260	0.686

Notes: *R = Rank; SD = Standard Deviation; KWS = Kruskal-Wallis H significance level; GM = General managers; DGM = Deputy general managers; MAD = Managers of accounting departments; AC = Accountants. Responses are based on a Likert scale where 1 = not influential at all and 5 = very influential.*

At the whole sample level, Table 6.6 demonstrates that the respondents ranked Banking Law No. 1 (2005) as the most influential factor on financial disclosure practice and accounting policies choice, with an overall mean of 4.30 (followed by Income Tax Law and Commercial Law, with overall means of 4.226 and 4.173 respectively). None of these figures are as high as those recorded for the three leading factors in Table 6.5, however the averages again hide some differences across the four preparer groups. For instance, only one specific preparer group -the general managers- suggested that the 2005 law was the most influential factor; in contrast deputy general managers ranked Commercial Law first and Banking Law No. 1 (2005) second, while both the accountant-based groups ranked Income Tax Law as the most influential factor. Once again, the strong level of influence attributed by both managerial-based preparer groups to Banking Law No. 1 (2005) is consistent with the evidence in Tables 6.3, 6.4 and 6.5 regarding the importance these groups attach to the balance sheet, the CBL as a user group and Central Bank officers as the most influential group of participants. On the other hand, corporate competition was ranked by all respondents as the least influential factor, with a mean of 3.906; although this figure supports that the market forces being introduced to the Libyan corporate sector have not yet permeated through to reporting practices. In particular, State-owned banks still dominate the banking industry in Libya and competition between financial organisations remains poor, even with the issuing of Banking Law No. 9 in 1993 which has allowed the establishment of private banks and permitted foreign banks to operate in the country. In this regard, Ehtawish (2006) argues that competition between commercial banks is strictly restricted because of underlying government ownership, with severe controls being imposed and an absence of any incentives to bank staff. The mean figure was still higher than for "academics" as reflected in Table 6.5.

These results might be explained on the grounds that, since the CBL directly supervises all commercial banks, it is not surprising to find the Banking Law No.1 of 2005 has considerable influence on financial disclosure practice and accounting policies choice. Similarly with regard to Income Tax Law, Libyan tax authorities have statutory power to require banks to prepare annual reports and banks are obliged to provide their annual reports to tax authorities annually (Bait El-Mal et al., 1988).

As can be seen from Table 6.6, developments in international accounting practices were seen by all respondents as a moderately influential factor on financial disclosure practices and the choice of accounting policies. This result might reflect the accounting background in Libya, as discussed in Chapter 2, whereby Libyan authorities have not yet adopted any international or external accounting standards, but may at some point in the future move towards on IFRS- influenced model.

Regarding the extent to which the differences among the preparers' responses were statistically significant, the results of Kruskal-Wallis H test suggested that there was no significant difference among the preparers at the 5% level, although a p-value of 0.078 was attained in regards to "Banking Law No. 1 (2005)". Therefore, the null hypothesis *H5* cannot be rejected.

6.2.7 The Significance of Problems that May Restrict Use of Libyan Banks' Annual Reports.

The participants were therefore given a list of nine potential problems that might impact users banks' annual reports, reflecting those commonly offered as such in the literature and the characteristics of annual reports commonly referred to in the conceptual framework models of the world's leading accounting authorities (see Chapter 3) namely comparability, reliability, understandability, relevance and materiality. The respondents were asked to rate these problems according to their perceived significance for users of Libyan banks' annual reports. A five-point Likert-type scale was used, where 1 indicates "not significant at all" and 5 indicates "very significant". The views of the four groups of preparers were compared simultaneously using the Kruskal-Wallis statistic; the following null hypothesis underpins this analysis:

H6: There is no significant difference among the groups of preparers in terms of the significance of specific problems for users of Libyan banks' annual reports.

Table 6.7: Preparers' Views about the Significance of Potential Problems for Users of Libyan Banks' Annual Reports

Potential Problems	Preparer groups				Whole sample			
	GM	DGM	MAD	AC	Mean	R	SD	KWS p-value
Delay in publishing annual reports	**4.429**	**4.800**	**4.583**	4.179	**4.365**	1	0.841	0.348
Lack of understandability of the information	4.286	4.600	4.333	4.148	4.255	2	0.821	0.748
Lack of access to annual reports	4.286	3.800	4.454	3.926	4.080	3	1.085	0.547
Lack of reliability of the information	4.143	4.400	3.667	**4.185**	4.078	4	0.868	0.509
Lack of compliance with accounting standards	**4.429**	4.000	3.636	4.107	4.039	5	1.165	0.617
Lack of comparability of the information	4.286	4.600	3.818	3.786	3.941	6	1.028	0.266
Lack of relevance of the information	4.286	4.000	3.667	3.857	3.885	7	0.983	0.326
Lack of materiality of the information	4.000	3.600	3.636	3.629	3.680	8	1.058	0.867
Lack of time available	3.429	3.400	3.909	3.500	3.571	9	1.155	0.883

***Notes:** R = Rank; SD = Standard Deviation; KWS = Kruskal-Wallis H significance level; GM = General managers; DGM = Deputy general managers; MAD = Managers of accounting departments; AC = Accountants. Responses are based on a Likert scale where 1 = not significant at all and 5 = very significant.*

Inspection of Table 6.7 reveals that all eight factors yielded mean responses above the midpoint of 3, suggesting that a range of problems are seen as significant for users of Libyan banks' annual reports. In terms of the four groups of respondents the table indicates that the delay in publishing annual reports was ranked by most respondents as the most significant problem for users of Libyan banks' annual reports, with an overall mean of 4.365 (followed by a lack of understandability of the information with a mean of 4.255); the exception was accountants who ranked the lack of reliability of the information as the most significant problem for users. This result might be explained on the grounds that respondents, as preparers of annual reports, believe that they publish their bank's annual reports too late and therefore think that the annual reports lose some of their usefulness. Regarding lack of understandability of the information, the preparers might believe that financial information disclosed in banks' annual reports is complicated technical information and not easily understood by users. If these interpretations are correct then Libyan authorities may usefully consider ways of building confidence among preparers as the timeliness and complexity of the reports they produce.

A lack of access to annual reports and a lack of reliability of the information were also seen as representing significant problems for users. Regarding the first of these, the result might be attributed to the fact that the vast majority of Libyan commercial banks do not display their annual reports in the locations required by Libyan laws[96] to be available to the public. Ranking a lack of reliability of the information as the fourth most significant problem might reflect a belief amongst the preparer groups that users of annual reports have doubts about the reliability of annual reports despite these reports being verified by external auditors.

Respondents reported a lack of time available as the least significant problem for users. This result suggests that the respondents might believe users to have ample time to read and use banks' annual reports for making economic decisions despite their concerns about the understandability of the information. Overall, it is clear that all the preparer

[96] Each commercial bank is required by the Law to display, throughout the year and in a conspicuous place at its head office and at all of its branches, a copy of its most recent, audited financial statements. It is also required to publish these statements in the Register of Actions and in a domestic newspaper (Article, 84 of Banking Law No. 1 (2005)).

groups perceive significant problems for users of Libyan banks' annual reports and, from a decision-usefulness perspective these problems might need to be addressed in order to make annual reports more helpful for user groups. Interestingly, the major problems do not seen to relate to the four factors mentioned in the conceptual framework models of the world's leading accounting authorities (see Chapter 3) but relate instead to fundamental practical concerns.

Inspection of Table 6.7 reveals that there were no significant differences among the four groups of preparers in terms of any of the ten potential problems for users of banks' annual reports. Therefore, the null hypothesis *H6* cannot be rejected.

6.2.8 The Significance of Potential Factors that Might Restrict the Quantity of Financial Disclosure in Libyan Banks' Annual Reports.

A lack of sufficiently extensive information for users of financial statements has been identified in several previous studies (e.g. McNally et al., 1982; Cooke, 1989; Wallace, 1988) as one of the main problems with annual reports. Therefore, the main restrictions on the quantity of disclosure in Libyan banks' annual reports were investigated, via the respondents being given a list of potential factors that might lead to the provision of insufficient information. The respondents were again asked to indicate the significance that they attach to each one on the basis of a five-point Likert-type scale, where 1 means "not significant at all" and 5 means "very significant". As in the previous sections, a Kruskal-Wallis test was used to examine the related null hypothesis about the difference in responses to each question across preparer groups:

H7: There is no significant difference among the groups of preparers in terms of perceptions about specific factors that might restrict the quantity of financial disclosure in Libyan bank's annual reports.

Table 6.8: Preparers' Views about the Significance of a Set of Factors in Restricting the Quantity of Financial Disclosure in Libyan Banks' Annual Reports

Potential Factors	Preparer groups				Whole sample			
	GM	DGM	MAD	AC	Mean	R	SD	KWS p-value
Lack of professional or qualified accountants	**4.286**	3.600	**4.083**	**4.179**	4.211	1	0.871	0.642
Weaknesses in accounting practices	**4.286**	4.000	3.917	3.857	3.942	2	1.056	0.873
Lack of an enforcement mechanism of rules	**4.286**	**4.200**	3.636	3.929	3.941	3	1.047	0.484
Lack of knowledge of external users' needs	4.143	3.400	3.750	3.464	3.615	4	1.157	0.569
Lack of demand for information	3.714	3.000	3.909	3.393	3.510	5	1.046	0.416
Fear of misuse extra published information by competitors	2.857	3.200	3.250	3.500	3.320	6	1.077	0.376
Expenses of information preparation and publication	3.429	2.400	3.250	3.143	3.135	7	1.067	0.500

Notes: *R = Rank; SD = Standard Deviation; KWS = Kruskal-Wallis H significance level; GM = General managers; DGM = Deputy general managers; MAD = Managers of accounting departments; AC = Accountants. Responses are based on a Likert scale where 1 = not significant at all and 5 = very significant.*

Table 6.8 indicates that the respondents ranked a lack of professional or qualified accountants as the most significant factor restricting the quantity of disclosure in Libyan banks' annual reports (with a mean of 4.211). Weaknesses in accounting practices and a lack of an enforcement mechanism of rules were next, with overall means of 3.942 and 3.941 respectively). This result is consistent with earlier in Libya, for example, Ehtawish (2006) who found that the lack of qualified staff was one of the main problems with the Libyan banking system.

As can be seen from Table 6.8, both the accountant-based groups considered a lack of professional or qualified accountants to be the most significant factor, with accountants actually ranking this factor a little higher than did the managers of accounting departments. This evidence can be interpreted as an acknowledgment from accountants that they are not qualified enough and thus they consider their own expertise deficit to have a detrimental effect on the extent of banks' disclosure. This result is surprising, though given that 89.7% of accountants (see Table 6.1) considered themselves professionally qualified in accounting or finance. Therefore, this result might cast some doubts about the practical benefits of the training and qualifying programs that have been conducted by Libyan banks for accountants.

Table 6.8 also shows that the managerial-based groups ranked the lack of a rule enforcement mechanism as the most significant factor, indeed both the managerial groups placed higher emphasis on this than did either of the accountant-based groups. This pattern suggests that managers do not believe that Libyan regulatory authorities do enough to motivate Libyan banks to improve existing accounting practices or to create and adopt new accounting standards and practices and yet this perception is not as strong among accountants themselves.

A lack of knowledge of external users' needs and a lack of demand for information were ranked as moderately significant by all respondents. This evidence suggests that the preparer groups regarded a lack of knowledge of external users' needs of information and a lack of demand for information by external users as significant factors restricting the quantity of disclosure in Libyan banks' annual reports. The latter result is consistent with the findings of Bait El-Mal et al. (1988) who report (as noted in Chapter 2) that, due to the statutory power of Tax Law and low demands on financial statements, Libyan companies prepare one set of financial statements for both internal and external purposes.

The expenses of preparation and publication of annual reports were considered by the sample as a whole as the least significant factor in restricting the quantity of disclosure in Libyan banks' annual reports, although deputy general managers saw this as even less important than did the other groups, with a mean of only 2.4. In addition, preparer groups ranked the fear of misuse of extra published information by competitors as the second least significant factor (with the exception of general managers who ranked this factor the least significant one). The result regarding the expenses of preparation and publication of annual reports is not surprising since most Libyan banks publish a relatively small number of copies of annual reports with few pages, on low quality paper[97]. Additionally, the result regarding the fear of misuse of extra published information by competitors is consistent with the findings in Table 6.6 where preparer groups ranked corporate competition as the least influential factor on financial disclosure.

These results are not consistent with Yaftain and Mirshekary's (2005) study of Iran, which found a lack of knowledge of external users' needs and a lack of reporting standards as the most significant factors restricting disclosure levels in annual reports.

[97] This has noted by the researcher during the collection of Libyan banks' annual reports for the disclosure index analysis reported later.

However, the results of current study are broadly consistent with most previous studies, especially in developing countries (e.g., Wallace, 1988; Al-Bastaki, 1997; Abdulrahman, 2003; Uddin and Iqbal, 2006; etc.) which suggest that the absence of a developed regulatory framework, the lack of qualified accounting professionals and the lack of an enforcement mechanism all contribute to a low level of financial disclosure and low degree of compliance with compulsory disclosure requirements.

Once again, although differences across pairs of preparer groups were evident, The Kruskal-Wallis test suggested that there was no significant difference among all four groups simultaneously in terms of any of the factors. Therefore, the null hypothesis *H7* cannot be rejected.

6.2.9 The Degree of Libyan Banks' Compliance with Existing Mandatory Disclosure Requirements

Since one of the main objectives of the current study is to assess the degree of Libyan banks' compliance with mandatory disclosure requirements, it seems therefore to be essential to elicit the preparers' perceptions about the extent of Libyan banks' compliance with existing regulations. To achieve this purpose, the respondents were asked to state their views by using a five-point Likert scale, where 1 indicates "very poor" and 5 indicates "excellent". To compare the views of four groups of preparers, a Kruskal-Wallis test was again used with the following null hypothesis underpinning the analysis on this occasion:

H8: There is no significant difference among the groups of preparers about the degree of Libyan banks' compliance with existing mandatory disclosure requirements.

Table 6.9: Preparers' Views about the Degree of Libyan Banks' Compliance with Libyan Disclosure Requirements

	Preparer groups				Whole sample		
	GM	**DGM**	**MAD**	**AC**	**Mean**	**SD**	**KWS p-value**
The degree of Libyan banks' compliance with existing mandatory disclosure requirements	3.571	3.400	3.167	3.107	3.211	0.775	0.487

Notes: R = Rank; SD = Standard Deviation; KWS = Kruskal-Wallis H significance level; GM = General managers; DGM = Deputy general managers; MAD = Managers of accounting departments; AC = Accountants. Responses are based on a Likert scale where 1 = very poor and 5 = excellent.

Table 6.9 reveals that all the preparer groups generated mean responses about the midpoint of 3, but the overall average was just 3.211. Noticeable is the fact that the accountant-based groups provided less support for the notion of mandatory compliance than did the managerial groups; this suggests that those closer to the process have greater concerns in this aspect of disclosure than do the managers of Libyan banks. This (relative) degree of apparent concern is surprising, given the limited nature of the disclosure requirements required by the Libyan regulatory bodies and laws as well as the absence of local and international accounting standards (Abulkarim, 2005).

However, an alternative explanation may lie in the likelihood of the managerial-based group being less familiar with statutory requirements than accountant-based groups. The perceptions of accountants-based group might more closely reflect the genuine extent of compliance with the rules and regulations.

The findings of Kruskal-Wallis test revealed that there was no significant difference among the four preparer groups in terms of the degree of Libyan banks' compliance with existing mandatory disclosure requirements, and the null hypothesis *H8* cannot be rejected. However, once again the two accountant-based groups provided quite different responses than the managers, and this issue is returned to the end of this chapter.

6.2.10 The Quality and Quantity of the Financial Disclosures in Libyan Banks' Annual Reports

Having been asked questions about the process of generating financial reports, the rest section of the questionnaire asked for views regarding the quality and quantity of financial disclosure in Libyan banks' annual reports. To accomplish this, the respondents were once again asked to indicate their views by using a five-point Likert scale, in this case where 1 indicates "very poor" and 5 indicates "excellent". A Kruskal-Wallis test was used to examine the following formal null hypothesis about the difference in responses across preparer groups:

H9: There is no significant difference among the preparer groups in terms of perceptions of the quality and quantity of financial disclosure in Libyan banks' annual reports.

Table 6.10: Preparers' Views about the Quality and Quantity of the Financial Disclosures in Libyan Banks' Annual Reports

Attributes	Preparer-groups				Whole sample			
	GM	DGM	MAD	AC	Mean	R	SD	KWS p-value
Relevance of the information	**3.571**	**3.600**	**3.000**	**3.500**	3.404	1	1.089	0.515
Comparability of the information	3.286	3.400	2.917	3.357	3.250	2	1.026	0.745
Quantity of information	3.429	**3.600**	2.917	3.250	3.231	3	0.831	0.429
Reliability of the information	3.286	3.400	**3.000**	3.259	3.216	4	1.006	0.768
Materiality of the information	**3.571**	3.400	2.917	3.214	3.211	5	1.073	0.587
Understandability of the information	**3.571**	3.200	2.917	3.179	3.173	6	0.834	0.290

Notes: *R = Rank; SD = Standard Deviation; KWS = Kruskal-Wallis H significance level; GM = General managers; DGM = Deputy general managers; MAD = Managers of accounting departments; AC = Accountants. Responses are based on a Likert scale where 1 = very poor and 5 = excellent.*

The factors included in this section were drawn from the conceptual framework models of the world's leading accounting authorities (see Chapter 3). Table 6.10 indicates that in all cases, overall means were greater than 3, suggesting that respondents were reasonably satisfied with the financial disclosures in Libyan banks' annual reports. However, most of means were little more than 3.2; with the managers of accounting departments providing means of less than 3 for four out of six factors and exactly 3 for the other two. The managerial-based groups appeared to be more satisfied than the accountant-based groups with the quality and quantity of financial disclosures in Libyan banks' annual reports. This result is consistent with the evidence in Table 6.9 regarding compliance with mandatory requirements, and suggests a fundamental difference in perceptions between the two broad classes of preparers.

The evidence in Table 6.10 is markedly different from that in Table 6.7 where "the (perceived) of" specific attributes was investigated. In particular, the means in Table 6.7 are consistently higher than in Table 6.10. This difference in responses is interesting as it suggests that although the quality and quantity of disclosure is no more than satisfactory, preparers should see any such divergence from the optimum as being problematic. Notwithstanding the differences noticed above, inspection of Table 6.10 reveals that the Kruskal-Wallis test results indicated a degree of consensus on all six attributes across the four preparers. Therefore, the null hypothesis *H9* cannot be rejected.

6.2.11 The Quality and Quantity of the Financial Disclosures in Libyan Banks' Annual Reports Relative to Other Sectors

Having examined a series of issues relating to the perception of Libyan banks' annual reporting, in *absolute* terms, the analysis switched to state of reporting in the sector *relative* to others. The respondents were therefore given a list of the same six attributes as in Table 6.10 but this time were asked to judge them. To achieve this purpose, the respondents were asked to express their views by using a 5 point Likert scale, where 1 indicates "very poor" and 5 indicates "excellent". To compare the views of the four groups of preparers, a Kruskal-Wallis test was used with the following hypothesis underpinning this analysis:

H10: There is no significant difference among the groups of preparers in terms of the quality and quantity of financial disclosure in Libyan banks' annual reports relative to other sectors.

Table 6.11: Preparers' Views about the Quality and Quantity of the Financial Disclosures in Libyan Banks' Annual Reports Relative to Other Sectors

Attributes	Preparer groups				Whole sample			
	GM	DGM	MAD	AC	Mean	R	SD	KWS p-value
Comparability of the information	**3.714**	3.800	3.500	**3.423**	**3.520**	1	0.974	0.794
Quantity of information	3.571	**4.000**	**3.667**	3.357	3.519	2	0.918	0.533
Relevance of the information	3.571	**4.000**	3.454	3.214	3.392	3	1.060	0.361
Understandability of the information	**3.714**	**4.000**	3.333	3.214	3.385	4	0.911	0.189
Reliability of the information	3.429	3.600	3.417	3.200	3.326	5	0.922	0.743
Materiality of the information	3.286	3.800	2.917	**3.423**	3.320	6	0.978	0.247

***Notes:** R = Rank; SD = Standard Deviation; KWS = Kruskal-Wallis H significance level; GM = General managers; DGM = Deputy general managers; MAD = Managers of accounting departments; AC = Accountants. Responses are based on a Likert scale where 1 = very poor and 5 = excellent.*

Table 6.11 illustrates that the quality and quantity of financial disclosure in Libyan banks' annual reports were considered by respondents to be strong relative to other sectors, with an overall mean of 3.520 resulting. Not only is this average above the equivalent figure in Table 6.10 regarding the absolute qualities of banks' annual reports, but five of the six specific aspects exhibited higher means in Table 6.11 than in Table 6.10 (the exception related to relevance). The respondents gave the attribute of comparability the highest ranking, while materiality was given the lowest ranking. The first result might be expected since Libyan commercial banks are all subject to the same regulatory supervision and instructions of the CBL.

Table 6.11 also indicates that the respondents ranked quantity of the information in second position. This result probably reflect the fact that -in addition to general Commercial law- , the CBL has legal authority to request commercial banks to reveal additional information about their activity and internal operations during the year, in order to fulfil its remit regarding supervision and monitoring, other sectors are not subject to any such statutory power to release extra information. This result is consistent with earlier emerging result studies, by Al-Shayeb (2003) and Aljifri (2008) who found that UAE banking and insurance companies disclose more information than firms in other industries. However, a recent study by Bribesh (2006) found that the manufacturing sector in Libya discloses more information that does finance sector, although the finance sector reveals more than the services and construction sectors. As can be seen from Table 6.11, deputy general managers were more satisfied than the other three groups regarding the six aspects of banks' disclosure put to them, while the accountants assigned the lowest level of satisfaction in most cases. Nonetheless, the overall picture of a positive view of the relative strength of annual reports in the sector is clear.

Inspection of the final column in Table 6.11 reveals that, once again there was no statistically significant difference across the four groups of preparers. The results therefore do not support rejection of the null hypothesis *H10*.

6.2.12 The Importance of the Libyan Stock Market's Role Regarding Financial Disclosures Practices in Libyan Banks' Annual Reports

The newly established Libyan Stock Market (LSM)[98] is expected to play an important role in improving financial disclosure practices in Libyan corporations. The

[98] For more information see Chapter 2.

respondents were therefore given with a list of potential aspects of such a role and asked to indicate the importance they attach to these. A five-point Likert scale was employed, where 1 indicates "not important at all" and 5 indicates "very important". A Kruskal-Wallis test was then used to examine a formal hypothesis about the difference in responses across preparer groups:

H11: There is no significant difference among the groups of preparers about the importance of the LSM's role regarding Libyan banks' financial disclosure practices.

Table 6.12: Preparers' Views about the Importance of the LSM's Role Regarding Libyan Banks' Financial Disclosure Practices

Potential Roles	Preparer groups				Whole sample			
	GM	DGM	MAD	AC	Mean	R	SD	KWS p-value
Ensuring banks publish their accounts in timely fashion	**4.571**	4.600	4.333	4.458	**4.458**	1	0.617	0.829
Ensuring banks comply with statutory requirements	4.143	4.600	**4.500**	**4.500**	4.456	2	0.690	0.459
Improving the understandability of the information	4.286	4.200	4.417	4.375	4.354	3	0.699	0.930
Encouraging Libyan banks to disclose more information	**4.571**	4.600	4.167	4.292	4.333	4	0.808	0.746
Improving the comparability of the information	4.286	4.000	4.417	4.333	4.312	5	0.776	0.937
Improving the reliability of the information	**4.571**	4.400	4.167	4.250	4.292	6	0.798	0.774
Improving the relevance of the information	4.286	4.400	4.417	4.208	4.292	7	0.771	0.675
Protecting the interests of investors and other users	4.286	**4.800**	4.333	4.087	4.255	8	0.793	0.337
Improving the materiality of the information	3.857	4.000	4.167	4.208	4.125	9	0.703	0.621

Notes: *R = Rank; SD = Standard Deviation; KWS = Kruskal-Wallis H significance level; GM = general managers; DGM = Deputy general managers; MAD = managers of accounting departments; AC = accountants. Responses are based on a Likert scale where 1 = not important at all; 5 = very important.*

Inspection of Table 6.12 indicates that the LSM is seen as having a widespread positive influence on annual reporting in the Libyan banking sector; all nine of the statements yielded whole sample means greater than 4. Ensuring banks publish their accounts in timely fashion was ranked by respondents as the most important role that the LSM is expected to play with an overall mean of 4.458, but followed closely by the function of ensuring banks comply with statutory requirements, with a mean of 4.456. The first result is consistent with the evidence in Table 6.7 that preparer groups regarded the delay in publishing annual reports as the most significant problem for users of Libyan banks' annual reports. To tackle this problem the LSM has made clear that they will force all listed companies including banks, to publish their annual reports by a specified time or be subjected to penalties. The result regarding compliance with mandated rules might also be argued to be as expected because all listed firms will have to comply with the LSM's statutory disclosure requirements in order to be listed on the LSM. As in most countries, including the UK and US, market rules tend to go beyond legal rules and thereby improve corporate governance levels via increased accountability (Solomon, 2007). Thus, the development of the LSM should in future lead to improvements to disclosure practices beyond simple compliance with legal statute; the evidence in Table 6.9 suggests such improvements are needed in Libya.

Table 6.12 also indicates that a role for the LSM in "improving the understandability of the information" was ranked by respondents in third position. This finding may reflect the fact that stock exchange markets often issue publications (via leaflets, textbooks or on their websites) for their customers and clients for identifying and clarifying the meanings of technical accounting words and expressions to promote users knowledge and understanding, and to ensure proper usage of the information disclosed[99]. The

[99] For example, the LSM has issued publications on 'how to read financial statements', for more information visit http://www.lsm.gov.ly/.

respondents considered improving the materiality of the financial information to be the least important potential role for the new exchange, but even here, then as 4.125.

The two managerial-based groups ranked "ensuring banks publish their accounts in timely fashion" and "encouraging Libyan banks to disclose more information" as the most important roles for the LSM, while the accountant-based groups considered the role of "ensuring banks comply with statutory requirements" to be the most important role. The latter result is consistent with the finding reported in Table 6.9 that the accountant-based groups were less satisfied about the level of Libyan banks' compliance with mandatory disclosure requirements; Therefore, these groups appear to be pining a substantive degree of hope on the role of the LSM in ensuring compliance with reporting rules.

While accountants, and respondents as a whole, ranked the role of "protecting the interests of investors and other users" as the second least important for the new LSM, both managerial-based groups considered this to be much more important. This result might be explained on the grounds that managerial-based groups (75% of this group had more than 10 years of experience, while 14.3% of general managers had studied and attended a numbers of sessions in finance and accounting abroad[100]) might be more familiar with the role of a modern stock exchange in protecting the interests of finance providers than the accountant-based groups (more than 51% of whom had less than 10 years of experience). This pattern in the findings is also consistent with evidence in

[100] The majority of these sessions were conducted in Egypt and Jordan where stock markets have been introduced recently and influenced the Libyan model.

Table 6.3 where the managerial groups placed more importance on the interests of (future and existing) investors than did the accounting groups.

Regarding the extent to which the differences among the four groups of preparers' answers were significant, the Kruskal-Wallis test again revealed that there was no significant difference among the groups of preparers' responses. Therefore, the results do not support rejection of the null hypothesis *H11*.

6.13 The Potential Effects of Economic Reforms that are Expected on Financial Disclosure Practices in Libyan Banks' Annual Reports

As chapter 2 documents, Libya is currently undergoing a period of major economic reforms with liberalization and privatisation programs being introduced at a rapid pace. These are aimed at reducing government expenditure and inviting the private sector to take a more effective part in shaping the national economy. Potentially, these reforms may affect many operational aspects of the Libyan corporate sector including the nature of annual reporting. Therefore, this study attempts to identify the preparers' perceptions about specific potential effects of the economic changes on banks' disclosure practices. To achieve this, the respondents were presented a list of potential impacts of the reforms and asked to express the extent of their agreement with each one. The respondents were asked to state their perceptions by using a 5 point Likert-type scale, where 1 means "strongly disagree" and 5 means "strongly agree". The following hypothesis formulated to be tested:

H12: there is no significant difference among the preparers of accounts about the effects of recent economic reforms on financial disclosure practices in Libyan banks' annual reports.

Table 6.13: The Potential Effects of Recent Economic Reforms on Financial Disclosure Practices in Libyan Banks' Annual Reports

Statements	Preparer groups				Whole sample			
	GM	DGM	MAD	AC	Mean	R	SD	KWS p-value
The quantity of the information will rise	4.286	4.400	4.182	**4.333**	**4.298**	1	0.623	0.854
The reliability of the information will improve	4.286	**4.600**	4.182	4.208	4.255	2	0.607	0.568
The relevance of the information will improve	4.286	**4.600**	4.182	4.208	4.255	3	0.642	0.622
The compliance with regulatory requirements will improve	**4.571**	4.400	**4.273**	4.083	4.234	4	0.560	0.176
The comparability of the information will improve	4.286	4.400	4.091	4.208	4.213	5	0.623	0.825
The materiality of the information will improve	4.286	4.400	4.000	4.208	4.191	6	0.613	0.557
The understandability of the information will improve	4.286	**4.600**	4.182	4.042	4.170	7	0.701	0.402

Notes: R = Rank; SD = Standard Deviation; KWS: Kruskal-Wallis H significance level; GM: General manager; DGM: Deputy general manager; MAD: Manager accounts department; AC: Accountant. Responses are based on a Likert scale where 1 = strongly disagree; 5 = strongly agree.

As was the case with the LSM reforms analysed in Table 6.12, the evidence in Table 6.13 demonstrates respondents saw multifaceted positive impact of the changes at macro-economic level on-going in Libya at the time of the research the overall mean scores were above 4 in all cases. The statement that "the quantity of the information will rise" received the strongest support, with a mean of 4.298, while the view that "the understandability of the information will improve" generated the lowest mean of 4.170. This evidence differs somewhat from Table 6.12; although the role of the LSM in encouraging "more information" generated a similar mean in both cases, the LSM reforms were seen as having a stronger impact on 'understandability' than did the economic once (means of 4.354 versus 4.170). This result makes sense in terms of the micro-level exchange reforms having a relatively strong impact on the clarity of annual reports than broader macro-level changes.

In all cases, inspection of Table 6.13 demonstrates that the two managerial-based groups see a stronger impact stemming from the reforms than do the accountant-based groups. This contrasts with the pattern evident in Table 6.12 regarding the impact of the development of the LSM. For example, in terms of the understandability, comparability and materiality, Table 6.12 reveals that both accountant-based groups saw a stronger impact of the market changes than did the general managers and their deputies. While this evidence suggests that those closer to the generation of annual reports see the stock market's role as being relatively more important than do managers, the findings again point to an underlying difference in perception across the two broad types of preparers and the issue is returned to in the concluding section of the chapter.

With regard to whether there are any significant differences across the preparer groups' responses, the Kruskal-Wallis test suggested that there no statistically significant differences exist at the 5% level, and so the null hypothesis *H12* cannot be rejected.

6.2.14 Preparers' Views about Normative Statements Regarding Financial Disclosure Practices within Libyan Banks' Annual Reports

The final part of the questionnaire was designed to obtain respondents' views about ten statements regarding specific aspects of financial disclosure practices in Libyan banks' annual reports. These statements primarily related to a series of broad normative issues underlying the more detailed earlier questions. The statements were designed to capture views about a range of potentially critical propositions regarding disclosure practices that were asked about only indirectly elsewhere in the questionnaire. Respondents were asked to give their perceptions by using a five-point Likert scale, where 1 indicates "strongly disagree" and 5 indicates "strongly agree", and The Kruskal-Wallis test was again used to examine a formal hypothesis about the difference in responses across preparer groups:

H13: There is no significant difference among the groups of preparers about the normative statements regarding financial disclosure practices within Libyan banks' annual reports.

Table 6.14 indicates that the respondents either strongly agreed or agreed with all ten the listed normative statements regarding financial disclosure practices in Libyan banks' annual reports. The notion that Libyan banks' external auditors should be independent of management influence was given the highest of ranking by nearly all respondents, with a mean of 4.667; the exception was deputy general managers who favoured the statement that the CBL should play a major role in monitoring the implementation of laws and regulations. The result regarding auditors suggests that respondents see a need for robust external monitoring of reporting in the banking sector. The (relatively) low level of importance placed on this aspect by deputy general managers is consistent with the (relatively) low level of influence that group sees being exerted by auditors on reporting, as shown in Table 6.5. In contrast, this group placed

Table 6.14: Preparers' Views about a Set of Normative Statements Regarding Financial Disclosure Practices within Libyan Banks' Annual Reports

Statements	Preparer groups				Whole sample			
	GM	**DGM**	**MAD**	**AC**	**Mean**	**R**	**SD**	**KWS p-value**
Libyan banks' external auditors should be independent of management influence	**4.857**	4.200	**4.818**	**4.640**	**4.667**	1	0.595	0.484
The CBL should play a major role in monitoring the implementation of laws and regulations	4.286	**4.800**	4.636	4.520	4.542	2	0.651	0.740
The professional skills of financial statements' preparers need to be improved	4.286	4.400	4.636	4.520	4.500	3	0.505	0.513
All the annual reports should be prepared using the same accounting standards	4.429	4.400	4.636	4.360	4.437	4	0.649	0.739
IASs should be applied to the banking sector by the Libyan authorities	4.286	3.800	4.636	4.375	4.362	5	0.870	0.682
Financial disclosure practices need to be improved	4.286	4.400	4.636	4.240	4.354	6	0.564	0.277
The CBL should play a major role in regulating and observing the disclosures	4.143	4.200	4.273	4.375	4.298	7	0.976	0.934
Reports' content should be regulated and not left to the manager	3.714	4.000	4.000	4.500	4.213	8	0.998	0.138
All annual reports should be presented using a standard format	4.143	4.000	4.300	4.000	4.087	9	0.865	0.944
Annual report should be available publicly	3.714	2.600	4.454	3.792	3.808	10	1.076	0.036*

Notes: *R = Rank; SD = Standard Deviation; KWS = Kruskal-Wallis H significance level; GM = general managers; DGM = Deputy general managers; MAD = managers of accounting departments; AC = accountant. Responses are based on a Likert scale where 1 = strongly disagree; 5 = strongly agree. A* indicates significance of the 5% level on the basis of a two-tailed test.*

the highest importance on the role of the CBL; this evidence is consistent with the finding in Table 6.3 where the deputy general managers ascribed the highest degree of importance to the CBL as users.

At the other extreme, the statement that "annual reports should be available publicly" generated the lowest mean of 3.808 (although managers of accounting departments ranked this statement in third position). This result suggests that preparers have only limited enthusiasm for releasing their banks' annual report to the public. However, Banking Law No. 1 of 2005 requires banks to display, -throughout the year and in an obvious place at its head office and at all of its branches-, a copy of its most recent, audited financial statements[101]. These findings are surprising because in Table 6.7 preparer groups considered a lack of access to annual reports to be the third most significant problems for users of Libyan banks' annual reports. Interestingly, in Table 6.7 it was deputy general managers who saw this factor as being the least important and in Table 6.14 the mean response from this group of 2.6 is well below all others and the figure for the sample as a whole. The accountant groups supported this statement more strongly than did the two managerial groups. This result might be explained on the grounds that 75% of the managerial-based respondents were appointed more than 10 years earlier, and may be still affected by the former situation in Libya (characterised by privacy) and laws[102] which still did not require management to release its annual report to the public.

Also evident from Table 6.14, is a perception that "the professional skills of financial statements' preparers need to be improved", which yield a mean response of 4.5. This

[101] Banks are also required to publish these statements in a domestic newspaper (Article, 84).
[102] Commercial Law does not require companies to provide their information to the public.

result is not surprising given the evidence in Table 6.8 that preparer groups regarded a lack of professional or qualified accountants as the most significant factor restricting the quantity of disclosure in Libyan banks' annual reports. Respondents appear to believe that to overcome this problem the Libyan authorities should take steps to improve the professional skills of financial statements' preparers.

Table 6.14 also indicates that the accountant-based groups provided relatively more support for the notion that "IASs should be applied to the banking sector by the Libyan authorities". This result suggests that those closest to financial reporting see tangible benefits from a movement to the IAS-regime, although the most striking evidence in this regard again relates to deputy general managers, who responded with a mean of 3.8 against a whole sample figure of 4.362. Clearly this group has an idiosyncratic perspective on the accounting process in the sector.

Overall, however, the support for IAS is consistent with the finding in Table 6.8 that preparer groups regard weaknesses in accounting practices as the most significant factor restricting the quantity of disclosure in Libyan banks' annual reports; if Libyan authorities adopt IASs this would be seen as a positive step, certainly in the financial sector; when considered alongside the results in Tables 6.12 and 6.13, it seems that a real desire for change exists in the modern-day Libyan financial sector and this may help the nation attract foreign equity investment in the future.

Notwithstanding the differences noted above, a Kruskal-Wallis test was conducted for each of the ten statements. Inspection of Table 6.14 suggests that there were significant differences among the respondents' views. In relation to the statement that "annual reports should be available publicly"; thus the null hypothesis *H13* is rejected for this statement. As mentioned above, the main drivers of this difference are evidently the responses from the deputy general managers.

6.3 Summary and Discussion

The objective of the research outlined in this chapter was to evaluate attitudes and perceptions of preparers of annual reports about financial disclosure practices in Libyan banks' annual reports; the issues reflect the decision-usefulness approach of the research, but in the context of a developing country with only a fledging securities market in existence. Four preparer groups were targeted to take part in a questionnaire survey in order to solicit their perceptions regarding financial disclosure practices in Libyan banks' annual reports. This sub-section provides the conclusion of results of questionnaire survey.

In terms of the role and content of Libyan banks' annual reports, the results illustrate that the preparer groups consider a management and board of directors to be the most important user group, while the main purpose of the documents is to provide information to assist the CBL in monitoring and supervision. Consistent with the latter finding, the preparer groups perceived the balance sheet to be the most important section of the annual report. Regarding the influence of potential participants and factors on Libyan banks' disclosure practices and choice of accounting policies, the preparer groups regarded the board of directors as the most important group of individuals, while Banking Law No. 1 (2005) was ranked as the most influential factor.

As regards, the quality and extent of Libyan banks' annual reports -and the restrictions thereon- the preparer groups ranked a delay in publishing annual reports as the most significant problem for users of Libyan banks' annual reports, while a lack of professional or qualified accountants was regarded to be the most significant factor restricting the quantity of disclosure in Libyan banks' annual reports. In general, respondents believed that Libyan banks comply reasonably well with existing mandatory disclosure requirements. All the preparer groups questioned are quite satisfied with the quality and the quantity of the existing financial disclosure in Libyan banks' annual reports both in absolute terms and especially relative to other sectors. Encouragingly, it appears that the development of the Libyan stock market and on-going economic reforms are seen as overwhelmingly positive in terms of financial reporting in the banking industry.

The questionnaire was administered to four preparer groups, two of these being managerial-based and two accountant-based, with the latter presented to be closer to the detailed preparation of the annual reports. It became increasingly evident that within both groups, perceptions were often similar, but across the groups (i.e. between managers and accountants) views regularly seemed to differ. To investigate this pattern more closely, Table 6.15 outlines eight areas where the differences across the two preparer classes were notably different.

Table 6.15: the Main Differences of Perceptions between Managerial-Based and Accountant-Based Groups

	Statement	Groups	
		Managerial-based	Accountant-based
1	The most important user of the financial reports of Libyan banks	Management and board of directors	External auditors
2	The most important section of the annual report for financial decision-making	Balance sheet	Income statement
3	The most influential group of participants on financial disclosure practices	Central Bank officers	The board of directors
4	The most influential factor on financial disclosure practices	Banking Law	Income Tax Law
5	The most significant factor restricting the quantity of disclosure	A lack of an enforcement mechanism	A lack of qualified accountants
6	the degree of Libyan banks' compliance with mandatory disclosure requirements	Very good	Good
7	The quality and quantity of financial disclosure in Libyan banks' annual reports	Very good	Good
8	The most important roles the LSM play regarding the financial disclosures practices	Ensuring banks publish their accounts in timely fashion and encouraging banks to disclose more information	Ensuring banks comply with statutory requirements

The table indicates that the managerial-based groups and accountant-based groups had different views regarding the most important users of the financial reports of Libyan banks; while managerial-based groups considered themselves and the board of directors as the most important, the accountant-based groups ranked external auditors first. This result might reflect the managerial-based groups acknowledging that their firms have poor internal communication mechanisms for providing information to management and the board of directors; they therefore depend on annual reports to get such information.

The managerial-based groups considered the balance sheet to be the most important section of the annual report for financial decision-making, while accountant-based groups ranked the income statement first. The first result might be explained on the grounds that managerial-based groups, who consider themselves to be the most important user group, focus on the balance sheet in order to get information in areas such as liquidity, investments and loans exposure for making decision about the future of bank. Relatedly, Table 6.15 also indicates that managerial-based groups consider Central Bank officers as the most influential group of participants on financial disclosure practices. These findings, combined with the strong role seen for the CBL by managers in Table 6.3 regarding the purpose of annual reports, suggests that financial stability -key for the CBL- and reflected most clearly in the balance sheet, dominates managers thoughts. However, the result might also reflect the fact that the management and board of directors, as banks' representatives, work under direct supervision from the Central Bank officers and are subjected to instructions of the CBL. Accountant-based groups, on the other hand, regarded the board of directors as the most influential group in terms of the annual reports. This result is consistent with the notion that since accountant-based groups receives their directions from board of directors via management, they regarded these groups as having the strongest direct impact.

Regarding the most influential factor on financial disclosure practices, the managerial-based groups ranked Banking Law first, while the accountant-based groups gave Income Tax Law the highest ranking. The first result is perhaps not surprising, since Central Bank officers were regarded by the managerial-based group as the most influential group. The result for the accountants may be explained on the grounds that accountant-based groups are responsible on the ground for the preparation of financial statements that contain the information requested by the tax authorities, thus the Income Tax Law would exert a strong influence on the financial disclosure process.

If this is the case, the financial statements then became largely tax driven and this might cause a bias in the information provided (Salah, 2002).

Table 6.15 further indicates that the managerial-based groups saw the lack of an enforcement mechanism as being the most significant factor restricting the quantity of disclosure, while accountant-based groups ranked a lack of qualified accountants first in this regard. The latter result is interesting in coming from the accountants themselves, and suggests that even if disclosure enforcement mechanisms are improved by regulators, without the availability of qualified accountants Libya is unlikely to see the development of an improved financial reporting environment. In this context, the chairman of the board of Alejmaa Alarabi Bank, in the directors' report in the 2006 annual report touched on this problem when he stated that the "Bank still suffers severely from a lack of trained and qualified staff".

Inspection of Table 6.15 further reveals that, managerial-based groups were generally more satisfied than accountant-based groups about the degree of Libyan banks' compliance with mandatory disclosure requirements and the quality and quantity of the financial disclosures in Libyan banks' annual reports. This evidence can arguably be interpreted as suggesting that managerial-based groups' perceptions reflect the point of view of managers who like to perceive his/her entity is performing well, in this case coming close to best practice in disclosure. It could be argued that the perceptions of accountant-based groups are more objective, and provide a more realistic reflection of the de-facto situation.

With regard to the roles that the LSM is expected to play concerning Libyan banks' financial disclosures practices, managerial-based groups considered the role of ensuring timely publication of accounts and encouraging the disclosure of more information to be most important. This evidence could be interpreted in terms of the managerial-based groups having concerns about the delay in publishing annual reports, and thus believing that the main function of the LSM is ensuring that banks publish their accounts in a timely fashion and with extensive information content in order to reduce information asymmetry and attract cheap funding. The accountant-based groups, on the other hand, ranked the role of ensuring banks comply with statutory requirements first; this might reflect a lack of satisfaction among the accountant-based groups about the degree of Libyan banks' compliance with mandatory disclosure requirements. This is consistent with the accountants seeing a major role for the LSM in terms of key qualities of reporting such as comparability and materiality (whereas managers saw the economic reforms as more important in this regard). This evidence also fits with that reported in Table 6.14 where the accountants perceive relatively a strong impact on a lack of qualified professionals. This analysis of the two broad groups of preparers illustrate the importance of going beyond the bare Kruskal-Wallis test, which compare all four groups of preparers' responses simultaneously, to examine patterns across sub-groups and broader categories. The next chapter reports the results of an analysis of the view of users of Libyan banks' annual reports. The findings are examined in the context of the evidence presented in this chapter regarding preparers' opinions, to examine the extent to which perceptions are in harmony.

Chapter Seven

Perceptions of User Groups about the Content and Usefulness of Libyan Banks' Annual Reports: Questionnaire Analysis and Discussion

7.1 Introduction

Following the analysis of the views of the preparers of Libyan banks' annual reports, this chapter shifts the focus on the opinions of the users of the documents. Throughout the chapter, discussion highlights not just the notable patterns in responses in isolation, but attention is also given to how these compare with the preparers' opinions as revealed in Chapter 6. The data presented in the current chapter is based on a questionnaire survey, which again reflected the decision-usefulness perspective of the study as a whole, and that has sent to six key users of Libyan banks' annual reports: institutional investors; bank loan officers; tax officers; external auditors; academics; and Libyan Central Bank officers[103]. The chapter provides a full descriptive analysis of the data and examines differences in the perceptions of the six types of users about financial disclosure practices in Libyan banks' annual reports. Section 7.2 of the chapter outlines the findings, while Section 7.3 summarises the most important results.

7.2 Questionnaire Results

7.2.1 The Profile of the Users

In Section 1 of the questionnaire, respondents were asked several questions regarding their occupations, age, experience, qualifications, educational level and place of study, to provide background and context for the remainder of the analysis.

[103] An explanation for the selection of these particular user groups is provided in Chapter 5.

Table 7.1: The Profile of Users

	User-groups						Whole sample
	Institutional investors	Bank loan and investment officers	Central Bank officers	Tax officers	External auditors	Academics	
Sample size							
Count	15	15	10	14	17	10	81
Percentage	18.5	18.5	12.3	17.3	21.0	12.3	100
Age (years)%							
22-25	13.3	--	10.0	--	--	--	3.7
26-35	53.3	53.3	20.0	57.1	17.6	--	35.8
36-45	26.7	33.3	50.0	42.9	23.5	60.0	37.0
Over 45	6.7	13.3	20.0	--	58.8	40.0	23.5
Experience (years) %							
Less that 1	7.1	13.3	--	--	--	--	3.8
1-5	50.0	6.7	30.0	28.6	5.9	--	20.0
5-10	28.6	53.3	20.0	35.7	29.4	10.0	31.3
10-15	14.3	6.7	20.0	21.4	11.8	20.0	15.0
Over 15	--	20.0	30.0	14.3	52.9	70.0	30.0
Professional Qualification %							
Yes	81.8	90.0	85.7	100.0	100.0	75.0	89.1
No	18.2	10.0	14.3	--	--	25.0	10.9
Highest Level of Education %							
Diploma	--	13.3	--	--	--	--	2.5
Bachelors Degree	60.0	73.3	50.0	71.4	47.1	--	53.1
Masters Degree	--	--	50.0	28.6	41.2	10.0	21.0
PhD	6.7	--	--	--	5.9	90.0	13.6
Other (Advanced Diploma)	33.3	13.3	--	--	5.9	--	9.9
Place of Study %							
Libya	93.3	93.3	90.0	92.9	47.1	10.0	72.8
Other Arabic Country	--	6.7	10.0	7.1	23.5	20.0	11.1
UK	6.7	--	--	--	11.8	40.0	8.6
USA	--	--	--	--	17.6	--	3.7
Other	--	--	--	--	--	30.0	3.7

Note: this table details the numbers of respondents in each of the six user groups both in total and when disaggregated on the basis of various characteristics.

Table 7.1 summarises the responses to Section 1 of the questionnaire and the sample sizes representing a response rate of 64.8% based on the 125 questionnaires distributed. Of the 81 respondents, the highest number of 17, (equal to 21% of the total) were external auditors, 15 (18.5%) were institutional investors, 15 (18.5%) were bank loan and investment officers, 14 (17.3%) were tax officers, 10 (12.3%) were Central Bank officers and the remaining 10 (12.3%) represented academics.

Therefore, no group or groups dominated the sample, with each representing more than one-tenth of the total.

With regard to age, respondents were asked to place themselves in one of four groups. As can be seen from the table, the vast majority of respondents (37%) were between 36 and 45 years old, with 35.8% aged between 26 and 35 years old and 23.5% over 45. External auditors and academics were the oldest in the target user groups of sample; this result is not surprising because in Libya these positions are traditionally filled by those with need more time to be spent to get extensive practical experience and knowledge (for the external auditors) and many qualifications generally including a PhD obtained from Europe or America –for which funding is rare for young researcher- for the academic group. In contrast, two-thirds of institutional investors were less than 35. With regard to time spent in current position, inspection of Table 7.1 indicates that the vast majority of respondents (76.3%) had over five years of experience. External auditors and academics proved to be not just the oldest, but also the most experience in their position.

With regard to professional qualifications, inspection of Table 7.1 illustrates that 89.1% of participants were professionally qualified in accountancy or finance. The figures for individual groups range from 100% (for tax officers and external auditors) to 75% (for academics). This result suggests that, as in the developed world, the nature of the academic function does not require all individuals to be professionally qualified to perform their roles as researchers and teachers.

Table 7.1 also indicates the educational level of the participants in the survey. More than three quarters of the whole sample (87.7%) had either Bachelor's (53.1%). Masters' (21%) or doctorate degree (13.6%), suggesting that the vast majority of respondents can be considered to be well educated. In contrast, for only 12.4% of participants did a diploma (2.5%) or an advanced diploma (9.9%) represent their highest qualification. Further analysis of Table 7.1 reveals that 50% of Central Bank officers had Masters Degrees, well above the sample average of 21%. This result reflects the fact that officers in the Central Bank of Libya are provided extensive financial support for higher degree study.

Finally, Table 7.1 also demonstrates the distribution of participants according to their place of study. The vast majority of the sample (72.8%) obtained their highest degree in Libya, while 11.1% of participants were educated in other Arabic countries (Jordan and Egypt in these cases). In addition, 8.6% of respondents completed their study in the UK, while 3.7% of respondents undertook their studies in the USA[104]. As can also be seen from the table, one-fifth of the academics were educated in other Arab countries, while 40% of academics completed their studies in the UK[105]. The findings regarding academics -90% of whom have doctorate degrees according to the table- reflects the fact that since there are not yet any PhD program in accountancy and finance in Libyan[106] (Ahmed and Gao, 2004). Notwithstanding the relatively small size of each group, the differences discussed so far suggest that the users were not a homogeneous set in terms of the stage of their career at the time of responding to the questionnaire. When comparing the profile of user respondents to the preparers (as

[104] Permission and support for Libyans to study in the USA was ended in 1981, but resumed in 2006, as political relationships between the two nations improved.
[105] The "other" 30% of academics completed their studies either in Poland or Australia.
[106] See Chapter 2 for more information in this regard.

show in Table 6.1 in the previous chapter) it is clear that the two groups of respondents differ in several respects. In particular, the users were educated to a higher level, and more of their studies took place internationally than was the case for the preparers. Also, there was noticeably less variation in age and experience amongst the users, with the respondents being heavily concentrated in the 26-45 and 1-15 year ranges respectively. These differences need to be borne in mind in the discussion of variability in the two groups' views which represents an important part of the rest of this chapter.

7.2 The Extent of the Use of Annual Reports

Section two of the questionnaire concentrated on the views and perceptions of the six groups of users of Libyan banks' annual reports. The first question in Section two of the questionnaire sought to discover the frequency of usage of the annual reports for making financial decisions. A 5 point Likert scale was used, where 5 indicates "always" and 1 indicates "never". The views of the six groups of users were compared using Chi-Square Test; the following hypothesis underpins this analysis:

H14: There is no significant difference among the groups of users regarding their frequency of annual reports usage for making financial decisions.

Table 7.2: Users' Views about the Level of Annual Report Usage

Level of frequency	User-groups						Whole sample
	INV	BLIO	CBO	TO	EA	ACA	
Always	46.7	33.3	70.0	42.9	66.7	33.3	48.7
Usually	46.7	33.3	30.0	28.6	26.7	22.2	32.1
Sometimes	0.0	26.7	0.0	7.1	6.6	22.2	10.3
Seldom	6.6	0.0	0.0	21.4	0.0	22.2	7.7
Never	0.0	6.7	0.0	0.0	0.0	0.0	1.3
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Chi-Square Test	61.103(P = 0.000*)						

Notes: This table details the frequency of use of Libyan banks' annual reports among the user groups: the figures shown are the percentage in each frequency category. User-groups: INV = Institutional investors; BLIO = Bank loan and investment officers; CBO = Central Bank officers; TO = Tax officers; EA = External auditors; ACA = Academics. Responses are based on a Likert scale where 1 = never and 5 = always.
** indicates p < 0.005*

Table 7.2 indicates that more than 80% of respondents frequently use annual reports for making economic decisions, with only 1.3 % claiming never to use the documents in this way. Inspection of the table also reveals that more Central Bank officers (70%) always used the annual reports than did the other user groups, although the equivalent figure for external auditors was 66.7%. These results might be argued as being as expected since the nature of both these functions involves using annual reports for specific mandated monitoring and supervising purposes. At the other extreme, bank loan and investment officers and academics used the annual reports less frequently than did other user groups; this evidence can be explained on the grounds that in the Libyan environment, bank loan and investment officers will likely have other sources for information relevant to lending decisions (see Section 7.2.4 below). With regard to the academics, the findings might reflect the fact that research in accounting or finance in Libya has been found to be almost non-existent (e.g., Ahmed and Gao, 2004) and academics have had little exposure to the research literature which links financial statement data to asset values and investment decisions.

Overall, however Table 7.2 indicates that banks' annual reports are used extensively in Libya with only 7.7% (1.3%) claming to seldomly (never) employ them. Interestingly, while the Central Bank officers (CBOs) and external auditors were the highest users; this evidence differs from the perceptions of preparers demonstrated in Table 6.2; in particular the former revealed that the CBOs were seen as attaching less importance to the reports than do academics and external auditors, contrary to the actual situation suggested in Table 7.2. The extent to which preparers' perceptions differ from users is a theme that is followed up throughout this chapter in an attempt to gauge the extent to which a fundamental gap exists.

A number of studies in the literature have examined the frequencies of usage of annual report for decision-making purposes in developing, oil-rich countries. In this context, the results of the current study of banking firms are consistent with the findings of Bribesh's (2006) earlier Libyan research which found that user groups regularly use annual reports for making financial decisions about Libyan companies. Similarly, Mirshekary and Saudagaran (2005) found that Iranian annual reports are regularly used by a range of users as a basis for investment and other economic decisions.

The Chi-Square Test carried out to test hypothesis *H14* indicates that there was a statistically significant difference at the 5% level across the five levels of response. Therefore, null hypothesis *H14*, whereby there is no significant difference among users in terms of their frequency of annual report usage, is rejected.

7.2.3 The Main Purpose of Annual Reports

The respondents were next presented with a list of potential purposes of annual reports and asked to indicate the importance that they attach to each one. A five-point Likert scale was employed, where 1 indicates "not important at all" and 5 indicates "very important". The views of the six groups of users were compared simultaneously using a Kruskal-Wallis statistic; the following null hypothesis underpins this analysis:

H15: There is no significant difference among the groups of users in terms of the perceived purpose of Libyan banks' annual reports.

Table 7.3: Users' Views about the Purposes of Libyan Banks' Annual Reports

Purposes	User-groups						Whole sample			
	INV	BLIO	CBO	TO	EA	ACA	Mean	R	SD	KWS p-value
To assist the CBL for monitoring and supervision purposes	4.267	3.929	**4.700**	**4.214**	**4.687**	4.300	**4.342**	1	0.783	.077
To assist managers in running their businesses	**4.600**	**4.071**	4.300	4.143	4.533	3.800	4.269	2	0.784	.029*
To assist potential investors with future decisions	4.533	3.429	3.200	**4.214**	4.625	4.400	4.114	3	1.050	.002*
To help existing investors in monitoring their investments	4.267	3.571	2.500	4.071	**4.687**	**4.500**	4.000	4	1.121	.000*
To assist creditors with future decisions	3.667	3.643	2.900	**4.214**	4.562	4.111	3.897	5	1.135	.012*
To assist creditors in monitoring their interests	4.143	3.357	2.667	3.769	4.375	4.000	3.789	6	1.062	.005*
To provide information to Libyan tax authorities	3.200	3.000	3.889	3.857	4.333	4.300	3.727	7	1.131	.015*
To aid academics and researchers in teaching and research	3.786	3.133	3.600	3.000	3.875	3.900	3.532	8	1.164	.157
To provide information about corporate governance standards	3.571	3.308	4.000	2.786	4.000	3.500	3.519	9	0.995	.007*
To assist employees in protecting their interests	2.571	3.071	2.222	3.071	3.625	3.300	3.026	10	1.287	.127

Notes: *R = Rank; SD = Standard Deviation; KWS = Kruskal-Wallis H significance level; User-groups: INV = Institutional investors; BLIO = Bank loan and investment officers; CBO = Central Bank officers; TO = Tax officers; EA = External auditors; ACA = academics. Responses are based on a Likert scale where 1 = not important at all and 5 = very important. A* indicates significance at the 5% level on the basis of a two-tailed test.*

Table 7.3[107] illustrates that the respondents as a whole rated the provision of information to the CBL for monitoring and supervision purposes as the main role of annual reports, with an overall mean of 4.342. The next highest mean scores related to the suggestions that the main purposes of Libyan banks' annual reports are to assist managers in running their businesses and to assist potential investors with future decisions (with means of 4.269 and 4.114 respectively). However, only three out of the six groups of users (Central Bank officers, tax officers and external auditors) ranked the CBL-related role as the main purpose of financial reports; in contrast, institutional investors and bank loan and investment officers attached the most importance to the role of annual reports in providing information to assist managers in running their businesses.

Inspection of Table 7.3 also indicates that Libyan academics attached most importance to the suggestions that the purpose of banks' annual reports is to help existing investors in monitoring their investments and to assist potential investors with future decisions; surprisingly, they rated the provision of information to academics and researchers for teaching and research purposes as only the seventh most important role. This result is consistent with the result in Table 7.2 where academics used the annual reports less frequently and therefore this result supports the earlier suggestion that Libyan academics make little use of annual reports for teaching and research purposes.

As can be seen from Table 7.3, all groups of users attached the lowest weighting to the suggestion that the main purpose of annual report is to assist employees in protecting their interests. This result reflected the fact that employees in Libya, as

[107] Appendix 7.2 provides a summary of the key findings of Tables 7.3-7.18.

developing country, are unsophisticated and not aware of the importance of annual reports for labour unions, as representative of employees, for their negotiations with the management of banks for protecting interests of employees and improving their wages.

Regarding the comparison between user and preparer groups' views, the perceptions of user groups are consistent with the preparers' views regarding the most two important purposes of financial disclosure in banks' annual reports. Both users and preparers considered the suggestion that the main purpose of annual reports is to provide information to assist the CBL for monitoring and supervision purposes to be the most important purpose, followed by the role assisting managers in running their businesses. Regarding the least important purposes of the annual report, the perceptions of user groups are somewhat different from the preparers' views. Whilst user groups considered the reports' role in assisting employees in protecting their interests to be the least important, (with an overall mean of only 3.026 lower than any figure in the equivalent table (6.3) in the previous chapter), preparer groups regarded the proposal that the role of providing information about corporate governance standards as the least important purpose of the reports. Notwithstanding these differences, it is evident that the perceptions about the relative importance of the various purposes are the same for users and preparers, although the mean figures are consistently higher for the latter. This in turn suggests that preparers see a stronger role for Libyan banks' annual reports than do the users.

The results shown in Table 7.3 are broadly consistent with the findings of Hossain's (2000) study in Bangladesh which found that the Government (i.e. the Ministry of

Finance), the Bangladesh Central Bank and banks' shareholders were considered by user groups to be the main users of bank annual reports. Moreover, these results are consistent with the findings of Mashat's (2005) earlier study in Libya regarding the second most important perceived purpose of corporate disclosure is to assist managers in running their businesses; however, the ranking of other suggestions are not consistent with the findings of the previous study. The results of current study, on the other hand, contradict Al-Kater and Naser's (2003) study in Qatar which found that the main purpose of corporate disclosure is to provide information to investors to assist them in making investment decisions. These prior studies focus on the corporate sector as a whole, however, whereas the present study concentrates on banks[108].

Regarding the extent to which the differences among the groups of users' answers were significant, the Kruskal-Wallis *H* test result indicates significant variance in views regarding the main purposes of annual reports being: (1) to assist managers in running their businesses; (2) to assist potential investors with future decisions; (3) to help existing investors in monitoring their investments; (4) to assist creditors with future decisions; (5) to assist creditors in monitoring their interests; (6) to provide information to Libyan tax authorities; and (7) to provide information about corporate governance standards. In all these cases the null hypothesis *H15* of no differences across the six groups of users is rejected for these suggestions. As with the preparers, there appear to be substantive differences in the way the purpose of Libyan banks reports are viewed, thus suggesting that the disaggregation employed are important.

[108] Both studies measured corporate (financial and non-financial) disclosure.

7.2.4 The Primary Sources of Financial Information for User Groups

Previous studies have concluded that financial information users employ several different sources of information to help them make financial decisions. To identify the most important source of financial information for users of Libyan banks' annual reports, the respondents were therefore presented with a list of five potential sources of information and asked to indicate the importance that they assign to each one. The usual five-point Likert scale was employed and a Kruskal-Wallis test employed with the following null hypothesis underpinning the analysis on this occasion:

H16: There is no significant difference among the groups of users in terms of their importance attached to various sources of financial information.

Table 7.4: Users' Views about the Importance of Different Sources of Information for Decision-Making

Sources of the information	User-groups						Whole sample			
	INV	BLIO	CBO	TO	EA	ACA	Mean	R	SD	KWS p-value
Annual reports	**4.000**	4.000	**4.600**	**4.286**	**4.625**	**4.500**	**4.312**	1	0.988	.488
Specialists and advisory services	3.800	3.714	4.100	4.143	4.333	4.200	4.038	2	0.986	.807
Communication with bank management	**4.000**	**4.071**	3.333	4.071	4.059	4.000	3.961	3	0.859	.596
Newspapers and magazines	2.867	3.067	3.000	3.357	3.250	3.300	3.137	4	1.166	.891
Advice of friends and relatives	2.067	2.154	2.000	2.923	2.062	2.600	2.289	5	1.043	.174

Notes: R = Rank; SD = Standard Deviation; KWS = Kruskal-Wallis H significance level; User-groups: INV = Institutional investors; BLIO = Bank loan and investment officers; CBO = Central Bank officers; TO = Tax officers; EA = External auditors; ACA = academics. Responses are based on a Likert scale where 1 = not important at all; 5 = very important.

Inspection of Table 7.4 indicates that user groups as a whole considered the annual report to be the most important source of information about Libyan banks (with a mean score of 4.312). Five of the six groups gave the highest mean score to this factor; the exception was bank loan and investment officers who rated communication with bank managers as the most important. The latter result might be expected given that Libyan bank loan and investment officers, unlike the other five groups, are allowed to request any information they need directly from the management of banks. The latter result is also consistent with the findings in Table 7.2 where bank loan and investment officers used the annual reports for making decision less frequently than the other user groups. The highest means scores for the annual report came from external auditors and Central Bank officers (4.625 and 4.6 respectively). This evidence is also consistent with the findings in Table 7.2 where Central Bank officers and external auditors claimed to use the annual reports more frequently than did the other user groups.

Specialists and advisory services were ranked by respondents as the second most important source of information, (mean = 4.038) followed by communication with management of bank (3.961). The main reason that newspapers and magazines are not used as important sources of information is likely to lie in the fact that (as mentioned in Chapter 6) such specialised magazines or newspapers in business and economic do not exist in Libya to any meaningful extent. The advice of friends and relatives[109] was regarded by all respondents as the least important source of information. This result confirms that overall picture emerging from Table 7.4 of a preference for formal sources of information.

The findings of current study are consistent with a number of previous studies' results on developed countries, such as Anderson (1981), Epstein and Pava (1993) and on developing countries such as Abu-Nassar and Rutherford (1996), Arazeen (1999), Almahmoud (2000), Hossain (2000), Nasser et al. (2003), Naser and Nuseibeh (2003),

[109] Advice of friends and relatives as a source of information was included in this question because it was considered to be a possible information source for individual investors who had not participated in the survey (see Chapter 5 for more information).

Mirshekary and Saudagaran (2005) and Bribesh (2006) who found an annual reports as the most important source of information for making economic decisions. In contrast, the results of study are not consistent with the findings of several previous studies such as; Lee and Tweedie (1975a), Courtis (1982), Anderson and Epstein (1995) and Chen and Hsu (2005) who found an annual reports as a little important as other sources. With regard to communication with bank management and the advice of friends and relatives as sources of information, the results of the current study are not consistent with the findings of Hossain's (2000) research, which found the former to be the least important source, while the latter was ranked to be the second most important source for the external users of banks' annual reports in Bangladesh.

As regards differences across the user groups, the evidence is generally consistent in terms of ranking. However, the importance placed by Central Bank officers on banks' management as a source was noticeably less than the other groups. This evidence is surprising at first glance and suggests that Government officers prefer to base their assessment and policies on the objective data in annual reports that are publicly available, rather than on private narratives. The Kruskal-Wallis test revealed that there were no statistically significant differences among the groups of users and the results, therefore, do not support rejection of null hypothesis *H16*.

7.2.5 The Quality and Quantity of the Financial Disclosures in Libyan Banks' Annual Reports.

One of main objectives of the current study is to assess perceptions regarding the actual level of financial disclosure in Libyan banks' annual reports. To accomplish this goal, the respondents, were given a list of criteria relating to the quality and quantity of financial disclosure in Libyan banks' annual reports and asked to evaluate each one. The respondents were again asked to express their views using a 5 point Likert scale, in this case where 1 means "very poor" and 5 means "excellent". The views of the six groups of users were compared using a Kruskal-Wallis H statistic; the following null hypothesis underpins this analysis:

H17: There is no significant difference among the groups of users in terms of perceptions of the quantity and quality of financial disclosure in Libyan banks' annual reports.

Table 7.5: Users' Views about the Quality and Quantity of the Financial Disclosures in Libyan Banks' Annual Reports

Attributes	User-groups						Whole sample			
	INV	BLIO	CBO	TO	EA	ACA	Mean	R	SD	KWS p-value
Relevance of the information	**3.400**	**3.857**	3.600	3.214	3.353	3.000	**3.412**	1	1.002	.283
Reliability of the information	3.067	3.571	3.400	3.500	**3.412**	3.000	3.337	2	0.856	.458
Materiality of the information	3.200	3.286	**3.700**	3.500	3.235	2.800	3.288	3	0.766	.123
Understandability of the information	3.067	3.214	3.400	**3.643**	3.118	**3.100**	3.250	4	0.849	.305
Comparability of the information	3.267	3.143	3.500	3.214	3.176	2.900	3.200	5	0.892	.689
Quantity of the information	2.800	3.200	3.400	3.500	3.000	3.000	3.136	6	0.945	.520

Notes: *R = Rank; SD = Standard Deviation; KWS = Kruskal-Wallis H significance level; User-groups: INV = Institutional investors; BLIO = Bank loan and investment officers; CBO = Central Bank officers; TO = Tax officers; EA = External auditors; ACA = academics. Responses are based on a Likert scale where 1 = very poor and 5 = excellent.*

The factors included in this (and the next two) subsection of the questionnaire reflect the desired characteristics of financial reporting that underpin conceptual framework models of the world's leading accounting bodies (see Chapter 3). Table 7.5 demonstrates that all respondents expressed moderate satisfaction with the financial disclosures made by Libyan banks, with mean scores of between 3.412 and 3.136 evident. The respondents were most satisfied with the relevance and reliability of the information and least satisfied with the quantity of the disclosures made in Libyan banks' annual reports. The latter result may reflect the fact that there are relatively few items of information that are required to be disclosed by Libyan authorities (via Libyan Commercial Law) and users' expectations regarding the extent of voluntary information releases are not matched by the firms concerned. The perceived lack of comparability may be explained by the absence of domestic and international reporting standards; Libyan banks implement a range of different accounting principles, methods and procedures which might make comparisons either within one company or between different companies more difficult (Bait El-Mal et al., 1988).

As can be seen from Table 7.5, academics indicated the lowest level of satisfaction with most characteristics of the financial disclosure in Libyan banks' annual reports, while Central Bank officers and tax officers expressed the highest level of satisfaction. These findings may well be an indication of the extent to which State bodies influence the process; Table 6.5 indicated a view amongst preparers that Central Bank officers exert significant influence.

Inspection of Table 7.5 also indicates that external auditors assigned the highest level of satisfaction to the reliability of the information. External auditors by their very nature are required to verify the accuracy of the financial statements and ensure that the bank's annual reports provide a true and fair view and so this evidence is consistent with their role in this regard. Interestingly, the institutional investors were less satisfied than most other groups about both the reliability and understandability of the information contained in the annual reports. This result indicates a degree of concern within this group about reliability of the information; this is evident in Table

7.4 where communication with management of bank was seen by this group as being as important as the annual reports itself as an information source.

Regarding the comparison between user and preparer groups' views, the users' perceptions of annual reports are broadly consistent with the opinions of annual reports' preparers; the mean scores for the whole sample are very similar in Tables 6.10 and 7.5, however the ordering of the attributes varies to some degree (although 'Relevance' has ranked highest in both cases).

Inspection of Table 7.5 reveals that (also consistent with Table 6.10) the results of Kruskal-Wallis test suggested that there were no statistically significant differences among the respondents' perceptions. Therefore, the null hypothesis *H17* cannot be rejected.

7.2.6 The Quality and Quantity of the Financial Disclosures in Libyan Banks' Annual Reports Relative to Other Sectors

The previous chapter indicated that preparers saw the quality and quantity of Libyan banks' annual reports to be more favourable in relative than absolute terms and the analysis was repeated for the users. The respondents were presented with the list of attributes introduced in Table 7.6 and asked to judge them using a five point Likert scale where 1 indicates "very poor" and 5 indicates "excellent". To compare the views of user groups, the Kruskal-Wallis test was used to examine the following null hypothesis:

H18: There is no significant difference among the groups of users in terms of perceptions about the quality and quantity of financial disclosure in Libyan banks' annual reports relative to other sectors.

Table 7.6: Users' Views about the Quality and Quantity of the Financial Disclosures in Libyan Banks' Annual Reports Relative to Other Sectors

Attributes	User-groups						Whole sample			
	INV	BLIO	CBO	TO	EA	ACA	Mean	R	SD	KWS p-value
Relevance of the information	**3.867**	3.308	3.300	3.286	**3.647**	3.500	**3.506**	1	0.918	.310
Materiality of the information	3.533	**3.417**	3.300	**3.571**	3.471	3.300	3.449	2	0.877	.959
Reliability of the information	3.267	**3.417**	**3.500**	3.429	3.588	3.200	3.410	3	0.859	.795
Comparability of the information	3.400	3.333	3.300	3.500	3.529	3.300	3.410	4	0.889	.949
Quantity of the information	3.333	3.000	**3.500**	**3.571**	3.294	**3.600**	3.367	5	0.865	.521
Understandability of the information	3.400	3.167	3.400	3.286	3.353	3.300	3.320	6	0.781	.964

Notes: *R = Rank; SD = Standard Deviation; KWS = Kruskal-Wallis H significance level; User-groups: INV = Institutional investors; BLIO = Bank loan and investment officers; CBO = Central Bank officers; TO = Tax officers; EA = External auditors; ACA = academics. Responses are based on a Likert scale 1 = very poor and 5 = excellent.*

Table 7.6 demonstrates that the respondents generally considered the quality and quantity of financial disclosure in Libyan banks' annual reports to be strong relative to other sectors, with each mean proving to be higher than the figures relating to the absolute characteristics in Table 7.5. This evidence might be attributable to the fact that banking industry in Libya is more regulated than other sectors and is subject to direct supervision from the Central Bank which may provide users with a degree of confidence in the information.

Regarding the comparison between user and preparer groups' views, the opinions summarised in Tables 6.11 and 7.6 are very similar in terms of the mean values. Both users and preparers considered the quality and quantity of the financial disclosures in Libyan banks' annual reports to be generally good relative to other sectors. However, the ranking of attributes were different; for example, user groups awarded relevance of the information the highest ranking, while the preparers ranked comparability of the information first, followed by the quantity of the information.

Inspection of Table 7.6 reveals that once again there were no statistically significant differences across the six groups of users. The results therefore do not support rejection of the null hypothesis *H18*, and are consistent with the equivalent analysis of hypothesis *H10* in the previous chapter regarding variability of preparers' views.

7.2.7 The Potential Importance of Quality Attributes of Financial Information Disclosed in Libyan Banks' Annual Reports

The previous two sections have discussed the evaluation of the actual quality and quantity of financial information disclosed in Libyan banks' annual reports both in absolute terms and relative to other sectors. However, these results in themselves do not indicate how much importance the users attach to each of the qualities[110]; this in turn provides context for the results in Tables 7.5 and 7.6 in terms of the implications of differences in the perceived quality of the annual reports issued by Libyan banks. The respondents were asked to indicate the importance they assign to each of the five qualities using a five-point Likert scale where the responses extend from 1 "not important at all" to 5 "very important". The views of the six groups of users were compared using Kruskal-Wallis statistics; the following null hypothesis underpins this of latter part the analysis:

H19: There is no significant difference among the groups of users in terms of the perceived importance they attach to different criteria that might affect the quality of financial information disclosed in Libyan banks' annual reports.

[110] The quality of disclosure is not analysed here as it was felt that such a question might have an unclear meaning in the respondents' minds.

Table 7.7: Users' Views about the Importance of Criteria Relating to the Quality of the Financial Information in Libyan Banks' Annual Reports

Criteria	User-groups						Whole sample			
	INV	BLIO	CBO	TO	EA	ACA	Mean	R	SD	KWS p-value
Reliability of the information	4.200	3.786	4.600	**4.643**	**4.471**	**4.300**	**4.325**	1	0.868	.238
Relevance of the information	**4.333**	3.867	**4.700**	4.571	4.294	**4.300**	4.321	2	0.834	.227
Understandability of the information	4.267	**4.000**	4.667	4.286	4.353	4.200	4.278	3	0.831	.712
Comparability of the information	4.067	3.643	4.500	4.286	**4.471**	4.000	4.162	4	0.892	.281
Materiality of the information	3.867	3.786	4.300	4.000	4.412	3.900	4.050	5	0.940	.440

Notes: *R = Rank; SD = Standard Deviation; KWS = Kruskal-Wallis H significance level; User-groups: INV = Institutional investors; BLIO = Bank loan and investment officers; CBO = Central Bank officers; TO = Tax officers; EA = External auditors; ACA = academics. Responses are based on a Likert scale where 1 = not important at all; 5 = very important.*

Table 7.7 indicates that each user group regarded all five qualities of information disclosure as being highly important, with the reported means all greater than 4. Reliability of the information was perceived to be the most important criterion (mean score = 4.325), closely followed by relevance and understandability of the information, with overall means scores of 4.321 and 4.278 respectively. These overall means hide a certain degree of variance in the responses of the six user-groups. For instance, only three of the six (tax officers, external auditors and academics) indicated that reliability of the information was the most important criterion. In contrast, institutional investors and Central Bank officers ranked the relevance of the information as the most important quality, while bank loan and investment officers considered understandability of information to be the main criterion.

Examining all the responses, the table highlights that Central Bank officers generally produced the highest means and bank loan and investment officers the lowest ones. This evidence is different to that presented in Tables 7.5 and 7.6 regarding the actual quality of the reports. The differences point to the varied perspectives held by bank-related officers in the retail and state sectors, with the latter placing much importance on all the aspects of reporting quality.

Comparing Table 7.7 with the previous' ones more generally, it is obvious that the means were consistently higher in Table 7.7. This suggests in turn that the quality of Libyan banks' annual reports is not yet as high as would be required to fulfil the full normative to be implied in the latter table.

Regarding the reliability of the information, the findings of the current study are consistent with many of the findings of previous developing nations studies such as those of Naser et al. (2003) regarding Kuwait, Naser and Nuseibeh's (2003) study of Saudi Arabia, Chen and Hsu's (2005) Hong Kong evidence and Bribesh's (2006) work in Libya, which found that external users perceived reliability to be the most important aspect of quality of information disclosed in annual reports. However, these results differ somewhat from an earlier Jordanian study by Abu-Nassar and Rutherford (1996) who found that user groups regard consistency as being the most important aspect of quality of financial information; reliability of the information was ranked only in fourth position. However, these earlier studies include all industrial sectors, while the present one focuses exclusively on banks. The Kruskal-Wallis statistics range from 0.227 to 0.712; the results therefore do not support rejection of the null hypothesis *H19*.

7.2.8 The Significance of Potential Problems for Users of Annual Reports of Libyan Banks

To identify the problems encountered by users of Libyan banks' annual reports, the respondents were presented with a list of potential problems that might be faced when using the reports, and asked to rate these according to their significance. A five-point Likert scale was used, where a 1 indicates "not significant at all" and 5 indicates "very significant". To compare the views of the six groups of users, a Kruskal-Wallis test was employed and the following formal null hypothesis tested:

H20: There is no significant difference among the groups of users in terms of the significance of specific problems with using Libyan banks' annual reports.

Table 7.8 demonstrates that the lack of reliability of the information was regarded by respondents as a whole as being the most significant problem confronted by users of Libyan banks' annual reports (with a mean of 4.437), followed by delays in publishing annual reports and a lack of compliance with accounting standards (with means of 4.350 and 4.337 respectively). However, three out of six groups (bank loan and investment officers, Central Bank officers and tax officers) indicated that the lack of reliability of the information is the most significant problem. This result is consistent with the evidence in Tables 7.7 and 7.5, where, in the former, the reliability of the information was ranked as the most important aspect of quality of Libyan banks' annual reports, but in Table 7.5, only one of the six groups (external auditors) saw reliability as the strongest quality of the documents. In contrast, respondents ranked a lack of time available as being the least significant problem faced by user groups with using of Libyan banks' annual reports; this evidence is consistent with the perceptions of preparers (shown in Table 6.7) suggesting that time pressure is not an influent on the extent to which the documents are used.

Table 7.8: Users' Views about the Significance of Specific Problems Regarding Usage of Libyan Banks' Annual Reports

Potential Problems	User-groups						Whole sample			
	INV	BLIO	CBO	TO	EA	ACA	Mean	R	SD	KWS p-value
Lack of reliability of the information	4.267	**4.500**	**4.600**	**4.571**	4.412	4.300	**4.437**	1	0.613	.531
Delay in publishing annual reports	4.133	4.143	4.200	**4.571**	**4.529**	**4.500**	4.350	2	0.765	.395
Lack of compliance with accounting standards	**4.467**	4.429	4.100	4.214	**4.529**	4.100	4.337	3	0.913	.790
Lack of understandability of the information	4.200	3.929	4.200	4.214	4.235	4.200	4.162	4	0.802	.975
Lack of relevance of the information	3.800	4.286	4.000	4.143	4.294	4.400	4.150	5	0.695	.217
Lack of access to annual reports	3.800	4.214	4.000	3.929	4.470	3.800	4.062	6	0.972	.165
Lack of comparability of the information	3.867	3.857	4.100	4.000	4.176	4.100	4.012	7	0.803	.917
Lack of materiality of the information	4.000	3.786	3.900	4.000	4.118	3.900	3.962	8	0.848	.953
Lack of time available	2.600	3.929	3.800	3.714	3.882	3.111	3.519	9	1.108	.033*

Notes: *R = Rank; SD = Standard Deviation; KWS = Kruskal-Wallis H significance level; User-groups: INV = Institutional investors; BLIO = Bank loan and investment officers; CBO = Central Bank officers; TO = Tax officers; EA = External auditors; ACA = academics. Responses are based on a Likert scale where 1 = not significant at all and 5 = very significant. A* indicates significance at the 5% level on the basis of a two-tailed test.*

Inspection of Table 7.8 also reveals that institutional investors rated the lack of compliance with accounting standards as the most significant problem. This result is consistent with the findings in Table 7.5 where this group considered the quantity of the information contented in Libyan annual reports to be relatively poor. External auditors considered the delay in publishing annual reports and the lack of compliance with accounting standards to be the most significant problems, suggesting that their professional concerns lay in these objective areas rather than in the more subjective quality-based characteristics. Academic regarded the delay in publishing annual reports as the most significant problem, despite the fact that Table 7.2 highlighted this group as making the least use of the annual report.

As can also be seen from Table 7.8, a lack of understandability of the information and a lack of relevance of the information were not considered by user groups to be the most significant issues. Regarding the former, the result is not unexpected since, as Table 7.1 showed, most target user groups are specialised and qualified either in accountancy or finance and well educated.

Regarding comparability, this result is arguably surprising since, as mentioned earlier, Libyan corporations continue to apply a range of accounting standards, principles, procedures and methods which might make comparison between companies difficult (Bait El-Mal et al., 1988). In addition, this result is inconsistent with the findings in Table 7.5 where user groups indicated comparability of the information disclosed in Libyan banks' annual reports as poor; relative to other aspects of quality. This apparent contradiction illustrates the importance of investigating views about the quality of the reporting from a number of different aspects rather than simply taking one piece of evidence and generalising excessively from it.

Regarding consisting between user and preparer groups' views, the users' perceptions of annual reports are slightly different from the opinions of annual reports' preparers, revealed in Table 6.7, who ranked the delay in publishing annual reports as the most significant problem for users of Libyan banks' annual reports (albeit with a very similar mean of 4.365). Regarding the lack of reliability of the information, however, the users' ranking of this as the most significant problem is not consistent with preparers' views where lack of reliability was rated only the fourth most significant problem (with lower mean of 4.078). The latter result is obviously to be expected since preparer groups are involved in the preparation of annual reports; nonetheless, it is striking that (and arguably concerning for Libyan authorities) preparers generated similar means as did the users for most issues suggesting that those who produce the report are just as concerned about their accessibility and quality as are those that read and analyse them.

The results in Table 7.8 are broadly similar to the findings of Mirshekary and Saudagaran (2005) for Iran which found the delay in publishing annual reports to be the most significant problem encountered by users of annual reports across the economy as a whole. Regarding the extent to which differences among the user-groups' responses were significant, the Kruskal-Wallis test results suggested that there were significant differences in the respondents' perceptions about the importance of a lack of time available (largely reflecting the low mean for the institutional investors).

Therefore, the null hypothesis *H20* is rejected for this problem but cannot be rejected in the remaining eight cases.

7.2.9 The Importance of Different Sections of Libyan Banks' Annual Reports for Decision-Making.

One of the main aims of the current study is to elicit the perceptions of user groups. Several recent studies of annual reports disclosures that also adopt a decision-usefulness perspective investigate perceptions about the role of different sections of the documents for decision-making. Respondents were, therefore, asked about the importance they attached to eight specific parts of Libyan banks` annual report when making decisions. A five-point Likert scale was used, where the responses range from 1 (not important at all) to 5 (very important). The views of the six groups of users were compared simultaneously using the Kruskal-Wallis test; the following null hypothesis underpins this analysis:

H21: There is no significant difference among the groups of users in terms of the importance that they attach to different parts of Libyan banks' annual reports for decision-making.

Table 7.9 illustrates that the income statement was ranked by the sample as a whole as the most important section of the annual report for decision-making (with an overall mean of 4.772), followed by the balance sheet and auditor's report (4.734 and 4.641 respectively). At the other extreme, the statement of retained earnings was viewed as the least important (in total, and by five of the six groups). The latter result may again reflect restrictions in place on investment and dividend polices in the Libyan banks which render the statement to be of (relatively) limited value. However, all eight parts of the annual reports, including the retained earnings information, were seen by respondents as being of importance in a decision-making context.

Table 7.9: Users' Views about the Importance of Different Sections of Libyan Banks' Annual Reports for Decision-Making

Sections of annual report	User-groups						Whole sample			
	INV	BLIO	CBO	TO	EA	ACA	Mean	R	SD	KWS p-value
Income Statement	4.667	4.600	**5.000**	**4.857**	**4.867**	**4.700**	**4.772**	1	0.479	.324
Balance Sheet	**4.733**	**4.733**	**5.000**	4.571	4.733	**4.700**	4.734	2	0.472	.485
Auditor's Report	4.533	4.600	4.778	4.500	**4.867**	4.600	4.641	3	0.580	.547
Statement of Cash Flows	**4.733**	4.500	4.900	4.714	4.692	4.000	4.605	4	0.750	.544
Notes to the Financial Statements	3.667	4.400	4.400	4.286	4.467	3.900	4.190	5	0.735	.017*
Directors' Report	3.800	4.400	4.400	3.857	4.467	4.300	4.190	5	0.769	.040*
Accounting Policies	3.800	4.301	4.400	4.286	4.400	3.900	4.181	7	0.790	.398
Statement of Retained Earnings	3.533	4.067	4.300	4.000	4.231	3.800	3.974	8	0.986	.446

Notes: *R = Rank; SD = Standard Deviation; KWS = Kruskal-Wallis H significance level; User-groups: INV = Institutional investors; BLIO = Bank loan and investment officers; CBO = Central Bank officers; TO = Tax officers; EA = External auditors; ACA = academics. Responses are based on a Likert scale where 1 = not important at all; 5 = very important. A* indicates significance at the 5% level on the basis of a two-tailed test.*

It is worthwhile noting here that, although the statement of cash flow is a relatively new statement, not required under Libyan law and not yet provided by the majority of Libyan banks, institutional investors and tax officers considered this statement to be the second most important of all, while the user groups as a whole ranked the statement as the fourth most important part of annual report.

As can be seen from Table 7.9, institutional investors ranked balance sheet and statement of cash flows as marginally more important than the income statement, while the director's report and accounting policies were considered to be (relatively) less important. Notes to the financial statements (mean = 3.667) and the statement of retained earnings (3.533) were regarded by the same group as the least important sections of annual report. As regards the directors' report, the mean of only 3.8 (compared to a sample average of 4.19) could be interpreted as reflecting the fact that the directors' report includes an abstract of a bank's achievements during the last year and gives little indication of future plans. In addition, the directors' report is not subject to the same external verification as financial statements and so investors' decisions are rooted more firmly in the parts of the report subject to external verifications.

Inspection of Table 7.9 also indicates that bank loan and investment officers' group ranked balance sheet (rather than the income statement, the top ranked overall) as the most important part of Libyan banks' annual report. This result is not surprising since the balance sheet reflects the bank's ability to repay their debts and generate future wealth. Central Bank officers considered the income statement and balance sheet to be very important parts of annual reports, with means of 5.00 in both cases, followed by the statement of cash flows (4.9). These high figures are consistent with the Central Bank officers having an important –and pervasive- role in monitoring and supervising the banking sector in Libya, with information about changes in assets, liabilities, liquidity, capital and reserves all playing an important role.

Inspection of Table 7.9 also indicates that tax officers ranked the income statement as being the most important part of annual report (mean = 4.857), followed by the statement of cash flows (4.714) and the balance sheet (4.571). This group of users ranked the directors' report as the least important part of annual report (3.857). These findings may reflect tax officers' using the income statement for corporation and other tax (e.g., Jihad and Stamp taxes) calculation purposes and to make sure that expenses deducted from income are in line with Tax Law. The directors' report, being narrative in form, obviously has a lesser role to play in this regard.

Regarding the comparison between users' and preparers' views, the perceptions of the former are broadly similar to preparers' opinions as revealed in Table 6.4. In Table 6.4, preparers ranked the balance sheet as the most important section and income statement as the second important sections; although the ordering is different, the means are similar in each case. The perceptions of user and preparer groups at the other end of the scale are also consistent with the statement of retained earnings (accounting policies) being seen as the least (second least) important section of the annual report for decision-making process.

The evidence that income statement and balance sheet are the two most important sections of Libyan banks' annual report is consistent with the evidence of several previous studies in both developed (see, e.g. Anderson, 1981; Courtis, 1982; Chang and Most, 1985; Epstein and Pava, 1994; Epstein and Anderson, 1994) and developing countries (see, Abu-Nassar and Rutherford, 1996; Naser and Idris, 1997; Hossain, 2000; Rahman, 2001; Nasser and Nuseibeh, 2003; Al-Razeen and Karbhari, 2004; Mirshekary and Saudagaran, 2005; Bribesh, 2006). This suggests that although the Libyan accounting system exhibits a number of idiosyncrasies, as outlined in previous chapters –the importance of individual parts of the financial statements is similar to countries with very different historical influences on reporting parties[111].

[111] The results of study are not consistent with all former studies in developed countries, for example Anderson and Epstein's (1995) study of Australia, which found that the profit and loss account and balance sheet were ranked by individual investors in second and fourth position respectively, Bartlett and Chandler (1997), who found that the profit and loss account and balance sheet were ranked by British individual investors in only third and ninth position respectively.

Regarding hypothesis *H21*, inspection of Table 7.9 reveals that there were statistically significant differences between the respondents' perceptions in two cases. The differences related to the importance of the notes to the financial statements and the director's report, both of which therefore indicated rejection of the null hypothesis. The investor and tax officer groups appear to be behind the two rejection cases, the circumstances relating to these responses were outlined above.

7.2.10 The Understandability of Different Sections of Libyan Banks' Annual Reports

The questionnaire then turned to the question of how perceptions regarding each of the quality dimensions outlined in Table 7.5 varied across the individual sections of Libyan banks' annual reports. Given the variability in the perceived importance of different sections of the report evident in Table 7.9, this disaggregated analysis should allow any link between quality and the role each section to be highlighted. First, in order to ascertain whether there is an association between the level of understandability of the information disclosed in different parts of the annual report and the perceived importance of each section, the respondents were next asked to indicate the level of understandability they associated with the same eight specific parts of the annual report reported in the previous table. As usual, a five-point Likert scale was employed, where 1 means "not understood at all" and 5 means "very well understood". A Kruskal-Wallis test was employed to test the following formal null hypothesis about differences in views across the groups of users:

H22: There is no significant difference among the groups of users regarding the understandability of different sections of Libyan banks' annual reports.

Table 7.10: Users' Views about the Understandability of Different Sections of Libyan Banks' Annual Reports

Sections of annual report	User-groups						Whole sample			
	INV	BLIO	CBO	TO	EA	ACA	Mean	R	SD	KWS p-value
Auditor's Report	4.067	3.643	**3.800**	**4.000**	**4.267**	**3.700**	**3.936**	1	0.811	.250
Income statement	**4.200**	**3.933**	**3.800**	3.786	3.933	**3.700**	3.911	2	0.771	.696
Directors' Report	3.867	3.429	**3.800**	**4.000**	3.733	3.500	3.731	3	0.832	.577
Balance Sheet	3.733	3.600	**3.800**	3.429	3.867	**3.700**	3.683	4	0.809	.549
Statement of Cash Flow	3.600	3.417	3.500	3.571	3.308	3.556	3.493	5	0.852	.970
Statement of Retained Earnings	3.533	3.500	3.700	3.429	3.308	3.500	3.487	6	0.791	.828
Notes to the Financial Statements	3.133	3.385	3.600	3.571	3.600	3.400	3.441	7	0.835	.651
Accounting Policies	2.933	3.000	3.500	3.357	3.467	3.200	3.234	8	0.944	.489

Notes: R = Rank; SD = Standard Deviation; KWS = Kruskal-Wallis H significance level; User-groups: INV = Institutional investors; BLIO = Bank loan and investment officers; CBO = Central Bank officers; TO = Tax officers; EA = External auditors; ACA = academics. Responses are based on a Likert scale where 1 = not understood at all; 5 = very well understood.

Inspection of Table 7.10 indicates that the auditor's report was ranked by respondents as the easiest section to understand in the annual report (with an overall mean of 3.936), followed by the income statement (mean = 3.911). The former result almost certainly reflect the fact that the auditor's report in Libya has no complicated expressions or phrases and has retained the same structure over time. In addition, Table 7.1 illustrated that the majority (76.3%) of respondents have an average of five years or more of experience, and could be expected to be familiar with its (unchanging) format. The balance sheet was, however, ranked by respondents in only fourth position. Much of the technical and complex accounting information relative to financial institutions is contained in this part of Libyan banks' annual reports and this may explain the finding; nonetheless, the balance sheet was the second most important part of the report, according to Table 7.9.

Inspection of Table 7.10 also indicates that respondents as a whole regarded accounting policies as a relatively difficult section to understand, with a mean of only 3.234 (compared with 4.181 in Table 7.9) (An exception in this regard was the external auditors who ranked the statements of cash flow and retained earnings as the least understandable sections). The former findings might be attributable to the fact that this section of Libyan annual reports has tended to include complicated accounting expressions and methods, as well as technical terms that reflect international terminology to which some users may have had only limited exposure. Also evidence in Table 7.10 is the fact that the directors' report was ranked as the third simplest section of the annual report, despite being only the sixth most important in Table 7.9. This result reflects the fact that the directors' report includes primarily narrative content as well as graphs and simple statistical information that users can easily understand.

Overall, although the ordering of factors differs slightly from Table 7.9, with the auditors' and director's report ranking more highly in Table 7.10, these findings indicate the fact that the respondents as a whole do not seem to have any major difficulties in understanding different sections of annual report, as reflected by reported means scores. This might reflect the fact that Table 7.1 indicated the majority of the respondents (87.7%) as having either a Bachelor's degree (or higher) with more than three-quarters also having more than five years of experience. However, it is noticeable that the means in Table 7.10 -although all above the mid-point of 3- are some of the lowest anywhere in this (and well below those in Table 7.9) suggesting that understanding of key parts of Libyan banks' annual reports could be improved in a substantive manner.

Regarding the auditor's report, the results are consistent with the findings of a number of previous studies in developing countries, such as Abu-Nassar and Rutherford's (1996) study of Jordan, Naser et al.'s (2003) evidence for Kuwait and Nasser and Nuseibeh's (2003) analysis of Saudi Arabia, which found that the auditor's report is the easiest part of the annual report to understand. However, some aspects of these results are not consistent with Anderson and Epstein's (1995) Australian evidence and Alrazeen's (1999) study of Saudi Arabia, which both found the directors' report to be the most easily understood section of the annual report, while the auditor's report was among the most complicated for Saudi users but the least difficult section for Australian users. Regarding accounting policies, the results of the current study are consistent with Abu-Nassar and Rutherford's (1996) study of Jordan, which found the statement of accounting policies to be understood less than other parts of annual report[112].

Inspection of Table 7.10 reveals that there were no statistically significant differences among the groups of users regarding the understandability of different sections of annual reports. Therefore, the results do not support rejection of null hypothesis *H22*.

7.2.11 The Reliability of Different Sections of Libyan Banks' Annual Reports

Reliability was seen by user groups as the most important aspect of quality of the information disclosed in Libyan banks' annual reports (see Table 7.7) but a lack of reliability was seen as the most significant problem when using the reports for decision-making purposes (Table 7.8). Thus the respondents were asked to indicate the degree of reliability that they associate with eight parts of the annual report

[112] It should be noted, however, that all the studies mentioned relate to firms as a whole rather than a banks exclusively.

highlighted in Table 7.9 using a five-point Likert scale, where 1 indicates "not reliable at all", while 5 indicates "very reliable". To compare the perceptions of the six groups of users, a Kruskal-Wallis test was employed and the following formal null hypothesis tested.

H23: There is no significant difference among the groups of users about the reliability of different sections of Libyan banks' annual reports.

Table 7.11: Users' Views about the Reliability of Different Sections of Libyan Banks' Annual Reports

Sections of annual report	User-groups						Whole sample			
	INV	BLIO	CBO	TO	EA	ACA	Mean	R	SD	KWS p-value
Auditor's Report	**4.000**	3.643	3.500	3.286	**3.765**	**3.500**	**3.637**	1	0.799	.171
Income statement	3.867	3.667	**3.800**	**3.571**	3.412	**3.500**	3.630	2	0.828	.530
Balance Sheet	3.467	**3.800**	**3.800**	3.500	3.588	**3.500**	3.605	3	0.736	.740
Statement of Cash Flow	3.533	3.461	3.500	3.154	3.333	3.444	3.400	4	0.805	.856
Statement of Retained Earnings	3.467	3.500	3.700	3.071	3.067	3.400	3.346	5	0.787	.174
Accounting Policies	3.400	3.461	3.300	2.929	3.176	3.400	3.266	6	0.780	.401
Notes to the Financial Statements	3.333	3.417	3.500	2.857	3.118	3.333	3.234	7	0.825	.370
Directors' Report	3.333	3.214	3.400	2.786	3.118	3.100	3.150	8	0.797	.406

Notes: *R = Rank; SD = Standard Deviation; KWS = Kruskal-Wallis H significance level; User-groups: INV = Institutional investors; BLIO = Bank loan and investment officers; CBO = Central Bank officers; TO = Tax officers; EA = External auditors; ACA = academics. Responses are based on a Likert scale where 1 = not reliable at all; 5 = very reliable.*

Inspection of Table 7.11 reveals that the respondents ranked the auditor's report as the most reliable section of the annual report (with a mean of 3.637), followed by the income statement and balance sheet (with overall mean scores of 3.630 and 3.605 respectively). Although this evidence is consistent with related evidence presented earlier (i.e. Table 6.4 (7.9) on preparers' (users') views about the importance of different sections of the report, and 7.10 on users' views about understandability), the overall means again hide a certain degree of variation in the responses of the six user-groups. For example, only three out of the six (institutional investors, external auditors and academics) indicated that the auditor's report is the most reliable section: in contrast bank loan and investment officers, suggested that the balance sheet is the most reliable section, while Central Bank officers considered the income statement and balance sheet jointly to be the most reliable sections, and tax officers ranked the income statement alone as the most reliable section of the annual report.

The directors' report received the lowest ranking in terms of reliability, and this differs markedly from Table 7.10 where it was perceived as one of the most understandable sections. This evidence might be attributable to the fact that the financial statements are subject to professional verification by external auditors, while the directors' report in Libya is not and is discretionary in nature.

Table 7.11 also indicates that the institutional investors' group assigned the highest rankings for reliability to for several of the annual report's sections. However, in Table 7.5 institutional investors expressed a relatively low degree of satisfaction (mean = 3.00) with the reliability of information disclosed in Libyan banks' annual reports as a whole. This suggests that disaggregating views about the quality of reports across different sections is useful in providing context; in this case it suggests that the investors see the overall reliability of the reports as being less than the sum of its parts. This in turn suggests that Libyan authorities have work to do in developing an overall reporting structure that encompasses the strongest features of the existing system, certainly in so far as institutional investors are concerned. In contrast, tax officers generated the lowest means in several cases. The latter result is consistent with the finding in El-Sharif (2006) where the non-recognition by Libyan tax authorities of financial statements certified by an external auditor was considered to be one of the most important obstacles facing the development of the accounting profession in Libya.[113]

Overall, the results indicate generally that respondents seem to trust all sections of the Libyan banks' annual reports, as reflected by the overall mean scores. However, whilst all means are above 3, all but one (accounting policies) are lower than the equivalents in Table 7.10 (i.e. understandability), which themselves illustrated room for important.

These findings are similar to the results of several previous studies in developing countries, such as those of Abu-Nassar and Rutherford's (1996) study of Jordan, Alrazeen's (1999) analysis in Saudi Arabia, Naser et al.'s (2003) Kuwait study and Nasser and Nuseibeh's (2003) research in Saudi Arabia, which found that the income statement and balance sheet were seen by users as the most reliable sections of the annual report. These studies also suggest that the directors' report is seen as the least reliable section of the annual report in the developing world as a whole.

Inspection of Table 7.11 reveals that there were no statistically significant differences among the groups of users regarding the reliability of different sections of annual reports. Therefore, the null hypothesis *H23* cannot be rejected.

[113] According to El-Sharif (2006), the reason for this state of affairs may be the tendency of some auditing bureaus to allocate audit work to unqualified accountants, which has led in turn to a lack of reliability in the auditing process.

7.2.12 The Relevance of Different Sections of Libyan Banks' Annual Reports

In a decision-usefulness context, for financial information to have a role, it must be relevant to the decisions made by users; as Table 7.5 indicates, relevance was considered by user groups to be the most important aspect of the quality of information provided in Libyan banks' annual reports. To identify the relevance of the information contained in the different parts of the reports, the respondents were asked to indicate the degree of relevance that they attach to each one using a five-point Likert scale, where a 1 indicates "not relevant at all" and 5 means "very relevant". A Kruskal-Wallis test was used, with the following null hypothesis underpinning this analysis; to compare the views of the six groups of users,

H24: There is no significant difference among the groups of users about the relevance of different sections of Libyan banks' annual reports.

Table 7.12: Users' Views about the Relevance of Different Sections of Libyan Banks' Annual Reports

Sections of annual report	User-groups						Whole sample			
	INV	BLIO	CBO	TO	EA	ACA	Mean	R	SD	KWS p-value
Income statement	4.333	3.533	**3.800**	**4.500**	4.353	**4.200**	**4.136**	1	0.905	.030*
Auditor's Report	4.400	3.615	3.300	4.357	**4.412**	4.000	4.076	2	0.888	.013*
Balance Sheet	4.000	3.667	**3.800**	4.357	4.294	4.100	4.049	3	0.879	.111
Statement of Cash Flow	**4.467**	3.615	3.300	4.286	4.267	4.000	4.039	4	0.972	.043*
Notes to the Financial Statements	3.533	**3.714**	3.400	4.143	4.059	3.600	3.775	5	0.954	.444
Directors' Report	3.867	3.538	3.300	3.929	4.000	3.700	3.759	6	0.923	.546
Statement of Retained Earnings	3.600	3.357	3.200	4.071	3.800	3.700	3.641	7	0.911	.314
Accounting Policies	3.333	3.385	3.200	3.786	3.823	3.500	3.532	8	0.958	.542

Notes: *R = Rank; SD = Standard Deviation; KWS = Kruskal-Wallis H significance level; User-groups: INV = Institutional investors; BLIO = Bank loan and investment officers; CBO = Central Bank officers; TO = Tax officers; EA = External auditors; ACA = academics. Responses are based on a Likert scale where 1 = not relevant at all; 5 = very relevant. A* indicates significance at the 5% level on the basis of a two-tailed test.*

The most obvious evidence to emerge from inspection of Table 7.12 is that the means are well above those in Tables 7.10 and 7.11, consistent with the finding in Table 7.5 that relevance is the most important quality in Libyan banks' annual reports in the minds of users in terms of the various sections of the report, the income statement was considered by respondents to be the most relevant part of annual report (with an overall mean of 4.136), followed by the auditor's report and balance sheet, with overall means of 4.076 and 4.049 respectively. Conversely, the respondents ranked accounting policies and the statement of retained earnings as the least relevant sections of the annual report. This evidence is consistent with the pattern emerging from Tables 7.10 and 7.11 in suggesting that these aspects of quality are the least important to users of the reports, thereby confirming the findings in Table 7.9 regarding their overall importance.

Table 7.12 also shows that of the six groups of users tax officers generally assigned the highest rankings to relevance, while Central Bank officers assigned the lowest rankings. These results are not fully consistent with the findings in Table 7.5 where tax officers ranked the relevance of the information disclosed in Libyan banks' annual reports in fifth position and Central Bank officers ranked this criterion second; Central Bank officers were most satisfied with the relevance of the information disclosed in Libyan banks' annual reports than tax officers. As with the previous table, the disaggregation across the eight parts reveals more satisfactions on the part of certain users than did the aggregate analysis shown in Table 7.5.

Inspection of Table 7.12 also indicates that institutional investors ranked the statement of cash flow as the most relevant part of annual report. This result again points to an increasing concern with the statement of cash flow on the part of these investors (as shown generally in Table 7.9) despite it not yet being required by Libyan authorities. Bank loan and investment officers considered the notes to the financial statements to be the most relevant section, followed by the balance sheet. This result makes sense given that this section of Libyan banks' annual reports includes details about banks' assets and liabilities that are likely to be crucial for this group of users when monitoring the borrowing of banks and/or evaluating the financial position of banks that have already demanded loans or advances.

Overall, the findings shown in Table 7.12 are largely consistent with the results of Abu-Nassar and Rutherford's (1996) study of Jordan, which found the income statement to be the most relevant section of the annual report (and accounting policies to be the least relevant section of annual report) for external user groups. Again though, the earlier study was of the corporate sector as a whole; the evidence here suggests that the perceptions of users of banking sector reports are consistent with the broader earlier evidence.

Regarding the extent to which the differences among the groups of users' responses was significant, an inspection of Table 7.12 indicates that there were statistically significant differences among the groups of users regarding the relevance of: the income statement; the auditor's report; and the statement of cash flow. In these cases the null hypothesis *H24*, of no differences across the six groups of users is rejected. It is evident from the table that the significance mainly reflects the relatively low means for the 'BLIO' and 'CBO' groups, discussed above.

7.2.13 The Comparability of Different Sections of Libyan Banks' Annual Reports

To be useful for making financial and investment decisions, the information disclosed in the annual report should be provided for comparability across firm and time period. To evaluate the extent of comparability of the information disclosed in the eight main parts of Libyan banks' annual reports, the respondents were asked to indicate the degree of comparability that they associate with each one, using a five-point Likert scale where 1 indicates "not comparable at all" and 5 indicates "very comparable". The views of the six user groups were then compared simultaneously using a Kruskal-Wallis test; the following null hypothesis underpins this analysis:

H25: There is no significant difference among the groups of users about the comparability of different sections of Libyan banks' annual reports.

Table 7.13: Users' Views about the Comparability of Different Sections of Libyan Banks' Annual Reports

Sections of annual report	User-groups						Whole sample			
	INV	BLIO	CBO	TO	EA	ACA	Mean	R	SD	KWS p-value
Income statement	**4.000**	3.667	**4.000**	**4.214**	4.000	**4.100**	**3.988**	1	0.798	.725
Balance Sheet	3.733	3.733	**4.000**	4.143	4.000	**4.100**	3.938	2	0.811	.725
Statement of Cash Flow	3.867	3.692	3.500	4.000	3.867	4.000	3.827	3	0.705	.542
Statement of Retained Earnings	3.867	3.714	3.700	3.857	3.667	3.900	3.782	4	0.863	.991
Auditor's Report	3.667	**3.786**	3.300	3.857	**4.059**	3.700	3.762	5	0.944	.406
Directors' Report	3.600	3.769	3.400	3.643	3.765	3.200	3.595	6	0.968	.641
Accounting Policies	3.667	3.692	3.200	3.857	3.625	3.300	3.590	7	0.904	.375
Notes to the Financial Statements	3.400	3.615	3.400	3.643	3.562	3.600	3.538	8	0.768	.670

Notes: *R = Rank; SD = Standard Deviation; KWS = Kruskal-Wallis H significance level; User-groups: INV = Institutional investors; BLIO = Bank loan and investment officers; CBO = Central Bank officers; TO = Tax officers; EA = External auditors; ACA = academics. Responses are based on a Likert scale where 1 = not comparable at all; 5 = very comparable.*

The whole sample means are lower than in Table 7.12 (and Table 7.14 which follows later), but higher than Tables 7.10 and 7.11. The latter evidence is surprising, given that Table 7.5 revealed 'comparability' to be the least important quality dimension in Libyan banks' annual reports as a whole; this in turn highlights again the usefulness of disaggregating across parts of the reports, to gain a more detailed understanding of perceptions in this regard. Closer inspection of Table 7.13 reveals that the respondents ranked the income statement as the strongest part of the annual report in terms of comparability (with an overall mean of 3.988), followed by the balance sheet and the statement of cash flow (3.938 and 3.827 respectively). Most of the user groups (institutional investors, Central Bank officers, tax officers and academics) considered the income statement to be the most comparable part of the annual report, but bank loan and investment officers and external auditors gave the auditor's report the highest ranking.

Respondents overall ranked the auditor's report in fifth position, noticeably lower than in Tables 7.10-7.12. The result almost certainly reflects the fact that (as noted in Chapter 2) audit reports in Libya are non-standard in form, with wide variation in the structure and narrative employed (Bengarbia, 1989).

The notes to the financial statements were considered by the respondents as a whole to be the least comparable section of annual report, with an overall mean of 3.538; this is the only one of the five quality aspects where this part of the report received the lowest ranking. However, despite the fact that room for improvement appears to exist in terms of Libyan corporations implementing similar accounting principles, methods and procedures (see also Bait El-Mal et al., 1988), the results in general (as reflected by the overall means) indicate that respondents considered Libyan banks' annual reports to be comparable.

Once again, although differences across pairs of user groups were evident, the Kruskal-Wallis test suggested that there were no statistically significant differences among the six groups of users regarding the comparability of the eight different parts of Libyan banks' annual reports. Therefore, the results do not support rejection of the null hypothesis *H25*.

7.2.14 The Materiality of Different Sections of Libyan Banks' Annual Reports

Finally in terms of the quality dimension, the respondents were asked to indicate the materiality that they associate with each one. In this case, the Likert scale was based on a 1 indicating "not material at all" and a 5 indicating "very material". The Kruskal-Wallis test examined the following related null hypothesis:

H26: There is no significant difference among the groups of users about the materiality of different sections of Libyan banks' annual reports.

Table 7.14: Users' Views about the Materiality of Different Sections of Libyan Banks' Annual Reports

Sections of annual report	User-groups						Whole sample			
	INV	BLIO	CBO	TO	EA	ACA	Mean	R	SD	KWS p-value
Income statement	**4.133**	4.200	**4.300**	**4.643**	4.353	**4.000**	**4.284**	1	0.794	.312
Balance Sheet	3.800	**4.400**	**4.300**	4.500	4.235	**4.000**	4.210	2	0.786	.153
Auditor's Report	**4.133**	4.000	3.800	4.357	**4.529**	3.900	4.160	3	0.813	.142
Statement of Cash Flow	3.933	4.154	3.800	4.154	4.400	3.889	4.080	4	0.784	.382
Statement of Retained Earnings	3.533	3.867	3.900	4.071	4.267	3.600	3.886	5	0.832	.130
Notes to the Financial Statements	3.533	4.143	3.300	4.071	4.250	3.700	3.873	6	0.790	.011*
Directors' Report	3.600	3.857	3.600	3.786	4.294	3.600	3.825	7	0.868	.152
Accounting Policies	3.067	3.929	3.600	3.857	4.250	3.500	3.721	8	0.831	.003*

Notes: *R = Rank; SD = Standard Deviation; KWS = Kruskal-Wallis H significance level; User-groups: INV = Institutional investors; BLIO = Bank loan and investment officers; CBO = Central Bank officers; TO = Tax officers; EA = External auditors; ACA = academics. Responses are based on a Likert scale where 1 = not material at all; 5 = very material. A* indicates significance at the 5% level on the basis of a two-tailed test.*

Inspection of Table 7.14 reveals that all eight parts of the annual report generated higher means for materiality than for any of the four other quality aspects examined in Tables 7.10-713. This result is again somewhat puzzling, as Table 7.5 indicated that, in terms of the entire annual report produced by Libyan banks, materiality was ranked only third out of the five quality dimensions. As noted earlier, the importance of allowing the quality dimensions to be related to each of the eight parts of the annual reports is therefore useful; at the very least, it confirms the impression from Table 7.9 that the importance of different sections as perceived by the users varies markedly.

The data in Table 7.14 also demonstrate that the income statement generated the highest mean (4.284), followed by the balance sheet and the auditor's report (4.210 and 4.160 respectively). At the other end of the table, the respondents ranked accounting policies as the least material section of annual report. Broadly speaking, these findings are in line with the earlier evidence (for example the top four sections are identical in order to those indicated in Table 7.9 as the most important) and respondents considered all parts of the Libyan banks' annual reports to be highly material.

Table 7.14 also indicates that there were statistically significant differences among user groups regarding the rating of extent materiality in the notes to the financial statements and accounting policies. Therefore, the null hypothesis *H26* is rejected for these two sections. A particularly wide range of means (from 3.067 for the institutional investors to 4.25 for the external auditors) is evident for the latter of those. These figures are indication of a general pattern in Table 7.14 for these two groups, possibly reflecting auditors' focus on materiality, and investors use of a wide range of information –although there was no evidence of this in Table 7.5, again suggesting some inconsistency in responses. In this specific case, the mean of little more than the mind-point of 3 generated by the investors suggests that they see the materiality of accounting policing information as being modest, at best, and that they prefer to employ final quantitative figures in their decision-making rather than concerning themselves with the process that generated them.

7.2.15 The Degree of Libyan Banks' Compliance with Current Mandatory Disclosure Requirements

One of the main objectives of the current study is to evaluate the degree of Libyan banks' compliance with existing Libyan disclosure requirements and so –as with the preparers- the users were asked to evaluate the level of Libyan banks' compliance with present mandatory regulations. Specifically, the respondents were asked to express their views by using a five-point Likert scale, where 1 means "very poor" and 5 means "excellent". A Kruskal-Wallis test was again used to test a formal null hypothesis about differences in views across the groups of users, in this case:

H27: There is no significant difference in views among the six user groups about the degree of Libyan banks' compliance with mandatory disclosure requirements.

Table 7.15: Users' Views about the Degree of Libyan Banks' Compliance with Existing Mandatory Disclosure Requirements

	User-groups						Whole sample		
	INV	BLIO	CBO	TO	EA	ACA	Mean	SD	KWS p-value
The degree of Libyan banks' compliance with disclosure requirements	2.923	2.667	2.600	2.571	2.765	3.300	2.785	0.811	.454

Notes: R = Rank; SD = Standard Deviation; KWS = Kruskal-Wallis H significance level; User-groups: INV = Institutional investors; BLIO = Bank loan and investment officers; CBO = Central Bank officers; TO = Tax officers; EA = External auditors; ACA = academics. Responses are based on a Likert scale where 1 = very poor; 5 = excellent.

Table 7.15 indicates that respondents as a whole believe that Libyan banks comply to only a limited extent with mandatory disclosure requirements, with the mean of 2.785 falling below the mind-point on the scale used. It is worth mentioning here that, although the groups of users believe that banks make a good compliance with mandatory disclosure requirements, this compliance is not the degree it must be. Given the relatively positive views evident in the previous five tables regarding the quality of the reports, this evidence is perhaps surprising. However, it is arguably consistent with the evidence in Table 7.5 that the quantity of disclosure is seen as less impressive than the quality; this interpretation of the evidence assures that the users (but not the preparers –see Tables 6.5 and 6.10) of Libyan banks' annual reports are reasonably satisfied with the quality of the documents, but additional information could be provided that would ensure compliance with a greater amount of the legislation. However, the picture is complicated by the fact that Table 7.15 evidences tax officers as generating the lowest mean, despite giving the highest ranking to quantity in Table 7.5. The highest mean figure in Table 7.15 -3.30 for the academics is consistent with the finding in Table 7.8 of this group having the (joint) lowest concerns about non-compliance with standards as a problem affecting report usage.

Regarding the comparison between user and preparer groups' general views, the formers' perceptions are slightly different from the opinions of preparers as shown, as highlighted in Table 6.9, about the degree of banks' compliance with existing Libyan disclosure requirements. All the preparer groups expressed a more positive view about current compliance levels than the users as a whole. This result suggests that -if preparers are assured to have a more accurate view of reporting requirements than do the users- then the latter hold on overly prescriptive view of the mandated content of the reports.

With regard to whether there are any significant differences across the groups of users' responses, the Kruskal-Wallis test suggested that there was a broad consensus regarding perceptions of Libyan banks compliance with mandatory disclosure requirements and these results therefore do not support rejection of null hypothesis *H27.*

7.2.16 The Importance of the Libyan Stock Market's Role in Improving Libyan Banks' Financial Disclosure Practices

As mentioned earlier in this dissertation, the newly-established Libyan Stock Market (LSM) is expected to play an important role in improving financial disclosure practices in Libyan corporations' annual reports. Thus –as with the preparers- , the users were given a list of potential ways in which the LSM could have an impact and asked to indicate the importance that they assign to each one. A five-point Likert scale was used, where 1 indicates "not important at all" and 5 indicates "very important". The views of the six groups of users were compared using the Kruskal-Wallis test; the following null hypothesis underpins this analysis:

H28: There is no significant difference among the groups of users about the importance of the LSM's role regarding financial disclosure practices by Libyan banks.

Table 7.16: Users' Views about the Importance of the LSM's Role Regarding Libyan Banks' Financial Disclosures Practices

Potential Roles	User-groups						Whole sample			
	INV	BLIO	CBO	TO	EA	ACA	Mean	R	SD	KWS p-value
Ensuring banks comply with statutory requirements	**4.733**	4.214	**4.300**	4.357	4.353	**4.400**	**4.400**	1	0.739	.499
Ensuring banks publish their accounts in timely fashion	4.571	4.231	4.200	4.286	**4.471**	4.300	4.359	2	0.805	.934
Encouraging Libyan banks to disclose more information	4.500	**4.417**	3.900	**4.429**	4.353	4.100	4.312	3	0.748	.348
Improving the relevance of the information	4.133	4.071	**4.300**	**4.429**	4.235	4.200	4.225	4	0.636	.749
Improving the reliability of the information	4.400	4.077	4.200	4.286	4.059	4.300	4.215	5	0.673	.709
Protecting the interests of investors and other users	4.467	4.077	3.667	4.000	4.412	4.100	4.167	6	0.874	.338
Improving the comparability of the information	3.933	4.231	4.100	4.071	4.294	4.300	4.152	7	0.681	.621
Improving the understandability of the information	3.933	3.923	4.100	4.214	4.235	4.200	4.101	8	0.690	.633
Improving the materiality of the information	3.667	4.154	4.000	4.214	4.118	4.300	4.063	9	0.722	.283

Notes: *R = Rank; SD = Standard Deviation; KWS = Kruskal-Wallis H significance level; User-groups: INV = Institutional investors; BLIO = Bank loan and investment officers; CBO = Central Bank officers; TO = Tax officers; EA = External auditors; ACA = academics. Responses are based on a Likert scale where 1 = not important at all; 5 = very important.*

Inspection of Table 7.16 reveals that the LSM is again seen as having an extensive positive impact on Libyan banks' annual reports; all the statements yielded whole sample means greater than 4. The role of "ensuring banks comply with statutory requirements" was ranked by respondents as the most important that the LSM is expected to play (with an overall mean of 4.400), followed by the function of "ensuring banks publish their accounts in timely fashion" (4.359). The former result is consistent with the evidence in Table 7.15 where user groups were less satisfied about Libyan banks' compliance with mandatory disclosure requirements and clearly see form for improvement in this regard. The latter result is consistent with the finding in Table 7.8 where user groups considered the delay in publishing annual reports to be the second most significant problem in using Libyan banks' annual reports, again pointing to a potentially important role for the LSM in the future as it grows and strengthens.

These overall means again hide a certain degree of variation in the responses of the six user groups. For example, only three out of six (institutional investors, Central Bank officers and academics) indicated that "ensuring banks comply with statutory requirements" is the most important role for the LSM; in contrast, bank loan and investment officers and tax officers, suggested that "encouraging Libyan banks to disclose more information" are the most important role, while external auditors ranked the role of "ensuring banks publish their accounts in timely fashion" as the most important potential role. The former result is consistent with the findings in Table 7.5 where bank loan and investment officers were least satisfied with the quantity of the information disclosed in Libyan banks' annual reports. The latter result is also consistent with the evidence highlighted in Table 7.8 where external auditors ranked the delay in publishing annual reports as the most significant problem faced by users of Libyan banks' annual reports.

Table 7.16 also indicates that a role for the LSM in "encouraging Libyan banks to disclose more information" was ranked in third position. This result is consistent with the evidence in Table 7.5 that the respondents are less satisfied with quantity of the information disclosed in Libyan banks' annual reports than with any aspect of the quality of the documents. The respondents as a whole considered the role of "improving the materiality of the financial information" to be the least important role that the LSM is expected to play regarding financial disclosures in Libyan banks' annual reports, although even in this case the mean was above 4.0. The (relatively) low role for the LSM in this regard is consistent with one of the findings reported in Table 7.8, where a "lack of materiality" was seen as one of the least problematic issues for users of Libyan banks' annual reports. The Central Bank officers provided a somewhat different pattern of responses than the other groups. For example, Table 7.16 indicates that this group generated its lowest mean (by some margin) of 3.667 regarding the protection of investors and other users. This finding is further confirmation of the impression arising from Table 7.3 that this group sees the annual report as being of relatively little importance for investors, creditors and employees, but instead functioning is primarily as a monitoring and supervisor tool for the CBL.

Regarding comparison between the user and preparer groups' views, the perceptions of the former regarding Libyan banks' annual report are slightly different from the latter. In Table 6.12, the preparer groups are shown to have ranked the role of the LSM in "ensuring banks publish their accounts in timely fashion" as its most important, while the role of "ensuring banks comply with statutory requirements" was second, i.e. the same two factors were ranked top by both sets of respondents, but with the order reversed. The role of the LSM in improving the understandability of the information was ranked third by preparers but only eighth most important by users. This difference, the clearest across the two groups suggests that the preparers see the LSM as having a bigger impact on reporting clarity than do the users. However, in both cases –as thought Tables 6.12 and 7.16, the means were both above 4.

Inspection of Table 7.16 reveals a strong degree of consensus among the groups of users, and the non-rejection in all cases of null hypothesis *H28* confirms this impression.

7.2.17 The Potential Effects of Recent Economic Reforms on Financial Disclosure Practices in Libyan Banks' Annual Reports

As mentioned in earlier chapters, Libya is experiencing a series of economic changes that may impact on the financial disclosure practices. This study therefore attempts to identify the perceptions of those close to financial reporting about the potential effects of the broad economic changes on banks' financial disclosure practices. To achieve this purpose, the users were presented with the same list of seven potential impacts of the reforms as were put to the preparers (see Table 6.13) and asked to state their views on each one using a five point Likert scale, where 1 means "strongly disagree" and 5 means "strongly agree". To compare the views of user groups, the Kruskal-Wallis test was again used; the following null hypothesis underpins this analysis:

H29: there is no significant difference among the groups of users about the effects of recent economic reforms on financial disclosure practices in Libyan banks' annual reports.

Table 7.17: The Potential Effects of Recent Economic Reforms on Financial Disclosure Practices in Libyan Banks' Annual Reports

Statements	User-groups						Whole sample			
	INV	BLIO	CBO	TO	EA	ACA	Mean	R	SD	KWS p-value
Libyan banks' compliance with regulatory requirements will improve	**4.333**	**4.357**	**4.000**	**4.143**	**4.235**	**4.000**	**4.200**	1	0.701	.333
The relevance of the information will improve	4.267	4.071	3.900	**4.143**	**4.235**	3.900	4.112	2	0.746	.498
The comparability of the information will improve	4.267	3.857	3.900	**4.143**	4.118	**4.000**	4.062	3	0.735	.544
The materiality of the information will improve	4.200	3.933	**4.000**	3.929	4.118	**4.000**	4.037	4	0.732	.665
The reliability of the information will improve	4.000	3.929	**4.000**	**4.143**	4.000	**4.000**	4.012	5	0.665	.986
The understandability of the information will improve	4.133	3.929	3.900	3.929	4.059	**4.000**	4.000	6	0.675	.764
The quantity of the information will rise	3.933	3.867	3.800	4.071	3.941	3.900	3.926	7	0.755	.995

Notes: *R = Rank; SD = Standard Deviation; KWS = Kruskal-Wallis H significance level; User-groups: INV: Institutional investors; BLIO: Bank loan and investment officers; CBO: Central Bank officers; TO: Tax officers; EA: External auditors; ACA: academics. Responses are based on a Likert scale where 1 = strongly disagree; 5 = strongly agree.*

Table 7.17 indicates that compliance with regulatory requirements was seen as the most likely improvement resulting from the reforms (with an overall mean of 4.200), followed by the statement of the relevance of the information (4.112). The former result suggests some concerns amongst user groups about the pre-reform extent of banks' compliance with mandatory disclosure requirements, and is consistent with key elements of the findings in Tables 7.8, 7.15 and 7.16 in this regard.

The respondents gave the lowest rating to the statement "the quantity of the information will rise". The latter result is potentially concerning since user groups (as noted in Table 7.5) were less satisfied with the quantity of the information disclosed in Libyan banks' annual reports than any other aspect of the documents.

Taken together with the evidence of regulatory compliance being seen as the most likely benefit of the changes, it suggests that users are looking for voluntary disclosures beyond those set out by regulatory authorities. The result might therefore support the notion that most user groups are concerned with the limited nature of the disclosure requirements required by Libyan authorities, albeit whilst acknowledging that the latter will be complied with more fully in the future.

Regarding comparison between user and preparer groups' views, the perceptions of users of Libyan banks' annual report are noticeably different from the views of preparers documented in Table 6.13, especially regarding the impact on disclosure quantity. As noted above, the users supported the statement relating to this issue less strongly than all others, yet the preparers ranked this highest. While this obviously suggests a difference in perceptions of the current state of reporting, in the cases of both preparers (understandability, see Table 6.10) and users (quantity, see Table 7.5), the issue with which there was most concern is seen as the least likely to improve in the light of the reforms.

Inspection of Table 7.17 reveals that there were no statistically significant differences among the user groups' responses. Therefore, the null hypothesis *H29*, which purports that there is no significant difference about the potential effects that the recent economic reforms will have on financial disclosure practices in Libyan banks' annual reports, cannot be rejected.

7.2.18 Users' Perceptions about Normative Statements Regarding Financial Disclosure Practices in Libyan Banks' Annual Reports

The final part of the questionnaire was designed to obtain the respondents' views about ten statements regarding specific aspects of financial disclosure practices in Libyan banks' annual reports. Respondents were asked to give their views on the same set of statements used in Section 6.2.14 of the previous chapter using a five-point Likert scale, where 1 indicates "strongly disagree" and 5 indicates "strongly agree". The views of the six groups of users were compared as usual using a Kruskal-Wallis test; the following hypothesis underpins this latter part of analysis:

H30: There is no significant difference among the groups of users about normative statements regarding financial disclosure practices in Libyan banks' annual reports.

Table 7.18: Users' views about a set of normative statements regarding financial disclosure practices in Libyan banks' annual reports

Statements	**User-groups**						**Whole sample**			
	INV	**BLIO**	**CBO**	**TO**	**EA**	**ACA**	**Mean**	**R**	**SD**	**KWS p-value**
Libyan banks' external auditors should be independent of management influence	**4.733**	4.538	4.700	**4.714**	**4.823**	**4.700**	**4.709**	1	0.510	.539
The CBL should play a major role in monitoring the implementation of laws and regulations	4.600	**4.692**	**4.900**	4.500	4.471	4.500	4.595	2	0.494	.280
The professional skills of financial statements' preparers need to be improved	4.500	4.308	4.500	**4.714**	4.588	**4.700**	4.551	3	0.595	.704
The CBL should play a major role in regulating and observing the disclosures	4.600	4.643	4.400	4.571	4.529	4.400	4.537	4	0.550	.850
All the annual reports should be prepared using the same accounting standards	4.533	4.538	4.100	4.357	4.412	4.600	4.430	5	0.654	.404
The IASs should be applied to the banking sector by the Libyan authorities	4.400	4.667	4.200	4.461	4.471	3.900	4.377	6	0.795	.501
Financial disclosure practices in Libyan banks need to be improved	4.333	4.429	4.200	4.214	4.353	**4.700**	4.362	7	0.509	.211
Reports' content should be regulated and not left to the manager	4.267	3.929	4.000	4.214	4.588	4.400	4.250	8	0.803	.380
All the annual reports should be presented using a standard format	4.333	4.461	4.000	4.000	3.562	4.300	4.090	9	0.914	.123
The annual reports should be available publicly	3.733	4.357	4.300	3.714	4.000	4.400	4.050	10	1.017	.143

Notes: *R = Rank; SD = Standard Deviation; KWS = Kruskal-Wallis H significance level; User-groups: INV = Institutional investors; BLIO = Bank loan and investment officers; CBO = Central Bank officers; TO = Tax officers; EA = External auditors; ACA = academics. Responses are based on a Likert scale where 1 = strongly disagree; 5 = strongly agree.*

Table 7.18 indicates that the respondents either strongly agreed or agreed with all ten list statements regarding financial disclosure practices in Libyan banks' annual reports. The statement that "Libyan banks' external auditors should be independent of management influence" received the highest level of ranking with a mean of 4.709. It is worthwhile here that, external auditors ranked the statement higher than did the other groups of users, with a mean of 4.823. Although this result does not necessary mean that auditors are unduly close to management, when considered in the context of the evidence in Table 7.5 that external auditors are not overly satisfied (as reflected by a mean of only 3.412) with the reliability of the information disclosed in Libyan banks' annual reports (and the findings in Table 7.8 that external auditors considered the lack of the reliability of the information to be the third most significant problem in using Libyan banks' annual reports). Then it appears that an issue may exist.

However, in Table 7.16 external auditors ranked "improving the reliability of the information" as the least important role the new LSM is likely to play. One possible interpretation of all of these results is that the management of banks have tended to intervene in external auditor's work, which renders the information disclosed in financial statements less than entirely reliable. Therefore, external auditors believe that the solution lies in reducing influence of management, with the market authorities only able to play a role at the margins.

Inspection of Table 7.18 also reveals that user groups ranked the statement that "the CBL should play a major role in monitoring the implementation of laws and regulations" in second position with a mean of 4.595. This result is consistent with the findings in Table 7.8 where the lack of compliance with accounting standards was considered to the third most significant problem in using Libyan banks' annual reports. This result is also consistent with the evidence in Table 7.15 where user groups were less satisfied with the Libyan banks' compliance with mandatory disclosure requirements. Therefore, they require the CBL to play a key role in pushing banks to comply with regulations and laws and in monitoring the implementation of these regulations and laws.

Table 7.18 documents support for the notions that IASs should be applied[114], that disclosure practices need to be improved, and that preparers skills need to be improved (means = 4.377, 4.362 and 4.551 respectively). This evidence concerns with equivalent findings regarding preparers' views in Table 6.14 and suggests that, while this chapter has demonstrated generally favourable views about Libyan banks regarding practices, much room for improvement exists.

Users' and preparers' views on the statements demonstrate remarkable consistency; not only are the mean figures similar, but the rankings are virtually identical. The only exception relates to the notion that "the CBL should play a major role in regulating and observing the disclosures, which was supported more strongly by the users.

[114] However, the vast majority of participants in El-Sharif's (2006) study argue that IASs should not be applied in their generic form, but instead must be amended to suit Libyan environment.

The Kruskal-Wallis test suggested that there were no statistically significant differences among the groups of users about the ten statements in Table 7.18 and the null hypothesis *H30* therefore cannot be rejected.

7.3 Summary and Discussion

This chapter has received the evidence emerging from a detailed questionnaire-based investigation into the views of six groups of users of Libyan banks' annual reports regarding the quality, role and influences on the disclosures therein, primarily from a decision-usefulness standpoint. This section of the chapter summarises the findings, focussing on the key results in both absolute terms and relative to the views of preparers as documented in Chapter 6.

The chapter began by investigating a number of fundamental issues regarding the usage of the annual reports. More than 80% of respondents claimed to make frequent use of the documents for making financial decisions, although the main purpose of annual reports is perceived to be to provide information to the CBL for monitoring and supervision purposes. Regarding the primary sources of financial information, user groups considered the annual report to be the most important source of information about Libyan banks and it is evident that all user groups satisfied with the quality and quantity of current financial disclosure in Libyan banks' annual reports, both in absolute terms and relative to other sectors. However, the respondents clearly felt that room for important exists in several fundamental ways. For example, the users regarded reliability and relevance of the information as the most important characteristics of financial information but a lack of the first of these qualities was considered to be the most significant perceived problem regarding Libyan banks' annual reports.

Users generally do not seem to have any difficulties in understanding different sections of annual report. In terms of the different sections, respondents ranked the income statement as the most important (and reliable) part, although the auditor's report was ranked as most reliable. Regarding comparability and materiality, respondents considered all sections of the Libyan banks' annual reports to be more than satisfactory. Although concern appears to exist about the current degree of compliance with mandatory requirements, the development of the LSM and recent economic reforms were both seen as likely to have a positive impact on this and other aspects of financial disclosure practices amongst Libyan banks.

The perceptions of preparer and user groups were encouragingly similar in most cases, but differences existed in a number of key areas. With regard to the main purpose of annual reports, both preparers and users had similar views in that the main role of the disclosures is seen as the provision of information to the CBL for monitoring and supervision purposes. Such evidence suggests that –notwithstanding the impact of on-going reforms- the traditional purpose of the reports in aiding Government authorities' central-planning processes still dominates the role of the reports as inputs into efficient market pricing mechanisms.

However, the perceptions of both preparer and user groups were dissimilar regarding the importance of different parts of annual reports for decision-making process; whereas preparers considered the balance sheet to be the most important section, users ranked the income statement first. This result might be attributable to the fact that preparers, who are specialised in (and more familiar with) day-to-day financial matters within corporations, believe that developing nations such as Libya, are prone to liquidity crises such as those that have afflicted several developing countries in recent years. Market mechanisms are becoming increasingly important in capital allocation decisions in Libya and concern about financial institutions' balance sheet strength at a time of rapid change is understandable.

As regards the significance of problems that may restrict use of Libyan banks' annual reports, the preparers and users' views were again different, in that the preparers regarded the delay in publishing annual reports as the most important problem, while user groups perceived a lack of reliability as the most important problem. However, as discussed in the relevant section earlier in the chapter, the most striking aspect of the results regarding perceived problems was that the users generated means very similar to those of the preparers, suggesting that a coincidence of perceptions exists and that users are not prone to concerns that exceed those of the preparers themselves.

In contrast, with regard to the extent to which Libyan banks' annual reports comply with present mandatory disclosure requirements, preparer groups were more satisfied than user groups. Given the general consensus about the substance of the reports, this result might be attributed to the fact that user groups, who were also relatively unsatisfied with the amount of information disclosed in Libyan banks' annual reports (see below), may be less aware of the limited nature of the current mandatory disclosure requirements required by the Libyan regulators. Therefore the users believe that the main problem lies in the non-compliance of Libyan banks with the (perceived) requirements. This potential explanation in turn suggests that authorities have work to do in terms of educating users about the mandated rules.

The perceptions of preparers were consistent with users' views regarding the quality of financial disclosures in Libyan banks' annual reports, but differ in terms of the quantity of the information; in the latter case, preparer groups were more satisfied than users. The latter result might again reflect the gap between the users' views regarding the financial disclosures required by Libyan banks and the (limited) nature of the extant rules. As regards the importance of the newly-formed LSM's role, both groups are pinning hopes on this body to play a key part in improving financial disclosure practices in Libyan banks' annual reports. However, preparers regarded the role of "ensuring banks publish their accounts in timely fashion" as the most important, while user groups ranked "ensuring banks comply with statutory requirements" in first position. Both results confirm the overall impression of the chapter, whereby preparers are keen to see existing disclosures being made available more quickly whereas users' priorities lie in seeing greater compliance with existing rules and regulations. Equally strong hopes appear to exist in terms of the impact of the on-going economic reform process in Libya. Again, the results point to a strong (shared) perception that Libyan banks' annual reports are of a reasonably high standard, but room for important exists, room which the recent market and economic reforms are seen as being well placed to exploit.

Finally, both preparer and user groups particularly strong support to the notion that "Libyan banks' external auditors should be independent of management influence". This result might cast some doubt on external auditor's independence in Libya, particularly because the external auditors strongly supported this statement as did the general managers. This pattern of results, which together suggest that the pressures on external auditors come from either chairmen or members of the board of directors other than the general managers, are consistent with the findings of Moamer's (2006) Libyan study which found that 60% of respondents perceived on the absence of full independence amongst chartered accountants in Libya[115]. Also, these results are consistent with the findings of Ehtawish's (2006) Libyan evidence which found that the audit officers and firms lack sufficient information technology and adequate human resources along with insufficient autonomy from the banks' management[116].

Overall, the picture that emerges from this and the previous chapter is one of reasonable satisfaction with the annual reports produced by Libyan banks, but with potential for

[115] The participants in Moamer's (2006) study suggested a number of reasons for the absence of external auditor independence in Libya:

1) Lack of support from the Libyan Accountants and Auditors Association (LAAA) for external auditors.
2) The tendency of some auditing bureaus to allocate audit work to unqualified accountants.
3) Engagement in personal relationships.
4) Absence of a professional ethics' code in Libya.
5) The lack of fixed and specific standards setting out the notion of independence in Libya
6) Stagnation in some auditing bureaus

[116] According to El-Sharif (2006), entitling the same auditor to verify the financial statements of the same company for more than three years potentially impacts on auditor independence.

positive developments. Perceptions regarding the extent of disclosure (whether mandated or not) are obvious, however. The next chapter attempts to put these concerns, and the evidence from the previous two chapters as a whole, into context by reporting the results of a detailed analysis of reporting practices in the Libyan banking sector through the use of a disclosure index method that examine the provision of both mandatory and voluntary information.

Chapter Eight

Financial Disclosure Practices within Libyan Banks' Annual Reports: Analysis and Discussion

8.1 Introduction

The previous two chapters have presented evidence regarding the perceptions of both users and preparers of the annual reports issued by Libyan banks. The present chapter complements these analyses by investigating the actual nature and extent of the disclosure made in the documents. As outlined in earlier chapters, several recent studies of reporting practices in both developed and developing nations employ the disclosure index (DI) method, and this approach is adopted here. In addition to providing a full conventional analysis of the data using the DI, the chapter also uses panel regression analysis to further examine the information by controlling for the simultaneous impact of each variable across time periods.

More specifically, this chapter provides descriptive information and statistical tests regarding the financial disclosure practices of Libyan banks over the period 2000-2006. This includes examination of the level of compliance with mandatory disclosure requirements and measuring the extent of overall (mandatory and voluntary) disclosure; the mean, standard deviation, minimum and maximum values are used to describe both the degree of compliance with the mandatory disclosure requirements and the overall level of financial disclosure. The analysis proceeds to investigate the relationship between certain factors (bank size, age of bank, profitability and ownership structure) and overall financial disclosure levels. Bivariate and Multivariate analyses are used to examine the relationship between these firm-specific characteristics and the level of financial disclosure, and to explain the variation in financial disclosure practices in Libyan banks' annual reports. While this form of analysis is common in other studies of this type that adopt the broad decision-usefulness paradigm, the investigation also provides novel panel regression evidence regarding the determinants of cross sectional variability in disclosure levels.

The analysis in the rest of the current chapter is divided into three main sections. The first section investigates the degree of Libyan banks' compliance with mandatory disclosure requirements during the years of 2000 to 2006, while the second examines the overall extent of financial disclosure. The third section is divided into two parts. The first part examines the relationship between certain firm-specific characteristics and the level of financial disclosure, while the second employs panel regression analysis to examine the effect of each explanatory variable in a more robust manner, i.e., by controlling for variability in the other covariates. The chapter then concludes with a summary of the evidence and its main implications.

8.2 Libyan Banks' Compliance with Mandatory Disclosure Requirements

8.2.1 Introduction

Several studies have investigated the degree of firms' compliance with mandatory disclosure requirements in developing counties (e.g., Benjamin et al., 1990 in Hong Kong; Ahmed and Nicholls, 1994 and Akhtaruddin, 2005 in Bangladesh; Xiao, 1999, Leung et al., 2006 and Lin and Wang, 2001 in China; Chamisa, 2000 in Zimbabwe; Joshi and Ramadhan, 2002 in Bahrain; Naser and Nuseibeh, 2003 in Saudi Arabia). These studies indicate a mixed pattern in behaviour with significant amounts of non-compliance evident in several countries. Moreover, the evidence presented in Tables 6.9 and 7.15 of the present study suggest that preparers and, - in particular -, users have concerns about the degree of Libyan banks compliance with the rules. The possible reasons for not complying with mandatory disclosure requirements in emerging nations were outlined by Ahmed and Nicholls (1994, p.62) who stated that:

> "In developing countries, while there are considerable incentives for voluntary disclosure in corporate annual reports, there are also reasons for not complying with mandatory disclosure regulations, including an inadequate regulatory framework and enforcement mechanisms and a lack of both an effective capital market and accounting profession. Therefore, the assumption that all companies will disclose all mandatory information may not be true in these countries."

The main objective of this section of the chapter is therefore to measure the degree of Libyan banks' compliance with mandatory disclosure requirements set by Libyan authorities (via Commercial Law, Income Tax Law and Banking Law) during the period from 2000 to 2006. To achieve this goal, the following null hypothesis was formulated:

H31: Libyan banks do not comply fully with mandatory disclosure requirements set by Libyan authorities.

As discussed in the methodology and methods chapter, the mandatory disclosure checklist was constructed based on relevant Libyan laws, namely Commercial Law, Income Tax Law and Banking Law, as there are currently no Libyan domestic (or external) accounting standards applying in the country (see Chapter 2). The initial checklist included 47 items of information, as detailed in Appendix 5.3. However, since there were a number of items that are not applicable to Libyan banks (for example, intangible assets, the requirement for ordinary shares to be separated from other kinds of equity, details of required amounts from the shareholders that have not yet paid, the number of loan bonds issued that still persist, etc.), the number was reduced to 40 (see. Appendix 5.4).

The methodology and methods chapter indicated, an unweighted approach to calculating the disclosure index was used, i.e. a simple dichotomous basis where an item scores one if it is disclosed and zero if it is not. One major problem with this procedure is that a firm might be penalised by the assigning of a score of zero for the non-existence of an item of information that is not applicable to it (Cooke, 1989). To cope with this problem, Cooke suggested that the entire annual report should be read first and then a decision made as to whether a particular item was applicable or not. The latter approach was adopted in the current study to avoid the risk of penalising a bank for failing to disclose a non-relevant item. Therefore, for banks having non-applicable items, the Mandatory Disclosure Index Ratio (MDIR) is the ratio of what the bank actually disclosed relative to what the bank was expected to disclose. This approach[117] has been adopted widely in previous literature (e.g., Cooke, 1989; Wallace et al., 1994; Wallace and Naser, 1995; Inchausti, 1997; Owusu-Ansah, 1998; Akhtaruddin, 2005).

8.2.2 Aggregate Analysis

Table 8.1 presents the Actual Mandatory Disclosure Items (AMDI) scores for each bank, while Table 8.2 provides descriptive statistics relating to the AMDI data across all banks in each of the seven sample years.

[117] Akhtaruddin (2005, p. 408) notes that: "This approach is considered to be a more accurate measure than one that assumes that all companies are identical and, therefore, no difference need exist in disclosure requirements"

Table 8.1: Actual Mandatory Disclosed Items (AMDI) for Each Bank over the Period 2000 to 2006

S/N	Name of Bank	AMDI Years						
		2000	2001	2002	2003	2004	2005	2006
1	Wahda Bank	34	33	33	35	35	34	33
2	Sahara Bank	36	36	36	36	36	35	35
3	Al-Umma Bank	34	33	33	33	34	32	31
4	Gumhouria Bank	37	37	36	37	36	34	34
5	National Commercial Bank	36	36	35	35	33	33	33
6	Development and Commerce Bank	34	37	38	37	35	33	35
7	Mediterranean Bank	30	30	29	29	29	29	29
8	Commercial Arab Bank	26	27	27	28	28	28	28
9	Alsaraya Trading and Development Bank	----	----	29	29	29	29	27
10	Aman Bank for Commerce and Investment	----	----	----	----	----	----	23
11	Alejmaa Alarabi Bank	----	----	----	----	----	----	28

Note: This table details the AMDI for each bank in the sample over the period 2000 to 2006

Table 8.2: Descriptive Statistics for Actual Mandatory Disclosed Items (AMDI) during the years of 2000 to 2006 across all Libyan Banks

Years	Number of banks	Max. Possible Score	Mean	Std. Deviation	Minimum	Maximum
2000	8	40	33.37	3.66	26	37
2001	8	40	33.62	3.62	27	37
2002	9	40	32.89	3.79	27	38
2003	9	40	33.22	3.63	28	37
2004	9	40	32.78	3.23	28	36
2005	9	40	31.89	2.57	28	35
2006	11	40	30.54	3.86	23	35

Note: This table details descriptive statistics for the AMDI across all Libyan bank in the sample over the period 2000 to 2006

Inspection of Table 8.1 indicates that none of the 11 banks in the sample disclosed all 40 items in any of the sample years. The highest level of mandatory disclosure was achieved by the Development and Commerce Bank which reported 38 of the items in 2002, while the lowest level was in 2006 by the Aman Bank for Commerce and Investment which reported only 23 items. Table 8.2 indicates that the average number of disclosed items decreased across the sample period from 33.37 items in 2000 to 30.54 items in 2006; the highest mean number of disclosed items was 33.62 in 2001, while the lowest number of disclosed items was 30.54 items in 2006. Again, however, it is evident from further inspection of the data that these figures were affected by low scores from banks which did not appear in the analysis until late in the sample period.

These figures are not enough to fully indicate the level of compliance however since, as noted earlier, there may be some items of information that are not applicable to all of the sampled banks. Therefore, Table 8.3 provides a more realistic indication of the level of compliance by providing the MDIR figure for each bank between 2000 and 2006. Table 8.4 presents the descriptive statistics for all banks for each year.

Table 8.3: The Mandatory Disclosure Index Ratio (MDIR) for Each Bank in the Period 2000 to 2006

S/N	Name of Bank	*MDIR							
		2000	2001	2002	2003	2004	2005	2006	Mean
1	Wahda Bank	.83	.80	.80	.85	.85	.85	.82	.829
2	Sahara Bank	.95	.95	.95	.95	.95	.95	.95	.950
3	Al-Umma Bank	.89	.89	.89	.89	.89	.89	.86	.886
4	Gumhouria Bank	.95	.95	.92	.95	.92	.92	.92	.933
5	National Commercial Bank	.92	.92	.92	.92	.92	.92	.92	.920
6	Development and Commerce Bank	.89	.95	.97	.95	.90	.89	.95	.929
7	Mediterranean Bank	.91	.91	.88	.88	.88	.88	.85	.884
8	Commercial Arab Bank	.81	.82	.82	.82	.82	.82	.85	.823
9	Alsaraya Trading and Development Bank	----	----	.88	.88	.88	.88	.84	.872
10	Aman Bank for Commerce and Investment	----	----	----	----	----	----	.74	.740
11	Alejmaa Alarabi Bank	----	----	----	----	----	----	.93	.930

*Note: This table presents the MDIR for each bank in the period 2000 to 2006 and for the whole sample years, *MDIR = Actual Mandatory Disclosure Index (AMDI) / Expected Mandatory Disclosure Index (EMDI).*

Table 8.4: Descriptive Statistics for the Mandatory Disclosure Index Ratio (MDIR) During the Period 2000 to 2006 across all Libyan Banks in the Sample

Years	Number of banks	Mean	Std. Deviation	Minimum	Maximum
2000	8	.8938	.05125	.81	.95
2001	8	.8988	.05915	.80	.95
2002	9	.8922	.05585	.80	.97
2003	9	.8989	.04702	.82	.95
2004	9	.8900	.03905	.82	.95
2005	9	.8889	.03887	.82	.95
2006	11	.8755	.06502	.74	.95
2000-2006		.8912			

Note: This table presents descriptive statistics for the MDIR over the period 2000 to 2006 and for the whole sample period across all Libyan banks in the sample

Tables 8.3 and 8.4 indicate that while Libyan banks complied with most of the applicable mandatory disclosure requirements, they failed to comply fully in any given year in the sample. In particular, MDIR figures shown in Table 8.4 range from 87.55% (in 2006) to 89.89% (in 2003) with an overall average across the seven years of 89.12%. Broadly speaking, the level of Libyan banks' compliance with mandatory disclosure requirements increased until 2003 and then started declining gradually, as reflected by the reported mean scores. On an individual bank basis, the highest figure shown in Table 8.3 is 97% (for the Development and Commerce Bank in 2002), while the lowest -by some distance- is 74% (Aman Bank for Commerce and Investment in 2006).

Inspection of Table 8.4 also indicates that the extent of differences between the lowest and highest index ratio values vary across the time period, peaking at 21% (in 2006) and falling as low as 13% (in 2003, 2004 and 2005). While this evidence suggests some variation in the level of compliance with mandatory disclosure by Libyan banks in each given year in the sample, it is again the introduction of the Aman Bank for Commerce and Investment in 2006 which drives most of the variation in spreads.

In summary, although the majority of Libyan banks disclosed most of the mandated items of information they all fall short of 100% compliance, suggesting that the null hypothesis *H31*, which indicates that the Libyan banks do not comply fully with mandatory disclosure requirements, cannot be rejected.

8.2.3 Disaggregated Analysis

Having examined the overall level of Libyan banks' compliance with mandatory disclosure requirements, the analysis proceeds to examine detailed disclosure patterns across the various specific items and classes thereof. As discussed in the methodology and methods chapter, the mandatory disclosure checklist was divided into seven main parts, namely: general information; balance sheet items; contingent accounts and commitments arising from off-balance sheet items; the profit and loss account; notes to the financial statements; the directors' report; and the auditors' report. For each item, the number of banks disclosing mandated information was compared with the maximum number (i.e. all those in the sample for which the item was applicable). Table 8.5 illustrates the level of compliance with each of the 40 applicable mandatory items of information during the years 2000 to 2006.

Table 8.5: The Level of Libyan Banks' Compliance with Each Applicable Mandatory Item during the Years 2000 to 2006

Mandatory Disclosure Index															
S/N	Items	2000		2001		2002		2003		2004		2005		2006	
		N	Mean	N	Mean	N	Mean	N	Mean	N	Mean	N	Mean	N	Mean
General information															
1	Bank's name	8	1.00	8	1.00	9	1.00	9	1.00	9	1.00	9	1.00	11	1.00
2	The legal form of the bank	8	.87	8	.75	9	.89	9	.89	9	.89	9	.78	11	.73
Balance sheet items															
3	Fixed assets	8	1.00	8	1.00	9	1.00	9	1.00	9	1.00	9	1.00	11	1.00
4	Assets and liabilities should not be offset	8	1.00	8	1.00	9	1.00	9	1.00	9	1.00	9	1.00	11	1.00
5	Cash and securities in the fund	8	1.00	8	1.00	9	1.00	9	1.00	9	1.00	9	1.00	11	1.00
6	Cash at the Central Bank	8	1.00	8	1.00	9	1.00	9	1.00	9	1.00	9	1.00	11	1.00
7	Cash at other banks	8	1.00	8	1.00	9	1.00	9	1.00	9	1.00	9	1.00	11	1.00
8	Treasury bills	5	1.00	5	1.00	5	1.00	5	1.00	4	1.00	0	.00	0	.00
9	Government treasury bonds	5	1.00	6	1.00	6	1.00	6	1.00	5	1.00	0	.00	0	.00
10	Securities	1	1.00	1	1.00	1	1.00	1	1.00	2	1.00	3	1.00	2	1.00
11	Investments	8	1.00	8	1.00	9	1.00	9	1.00	9	1.00	9	1.00	9	1.00
12	Percentage or number of shares purchased	8	.25	8	.25	9	.33	9	.22	9	.22	9	.22	9	.11
13	Time deposits with the Central Bank	7	1.00	6	1.00	6	1.00	6	1.00	6	1.00	6	1.00	7	1.00
14	Time deposits with other banks	7	1.00	7	1.00	7	1.00	7	1.00	7	1.00	6	1.00	7	1.00
15	Loans and advances to other banks	6	1.00	5	1.00	5	1.00	5	1.00	5	1.00	5	1.00	5	1.00
16	Loans and advances to customers	8	1.00	8	1.00	9	1.00	9	1.00	9	1.00	9	1.00	11	1.00
17	Various debit accounts (general)	8	1.00	8	1.00	9	1.00	9	1.00	9	1.00	9	1.00	11	1.00
18	Amounts of nominal capital	8	.87	8	.87	9	1.00	9	1.00	9	1.00	9	1.00	11	.82
19	Legal reserve	7	.87	7	.87	8	.89	8	.89	9	.89	9	.89	11	1.00
20	The general reserve	7	.87	7	.87	7	.78	7	.78	9	.78	9	.78	11	.73
21	Provision reserves	8	1.00	8	1.00	9	1.00	9	1.00	9	1.00	9	1.00	11	1.00
22	Accumulated depreciation on fixed assets	8	1.00	8	1.00	9	1.00	9	1.00	9	1.00	9	1.00	11	1.00
23	Inclusion of accumulated depreciation in liabilities	8	.00	8	.00	9	.00	9	.00	9	.00	9	.00	11	.00
24	Depreciation based on the straight-line method	8	1.00	8	1.00	9	1.00	9	1.00	9	1.00	9	1.00	11	1.00
25	Provision against the risk of assets values falling	8	.50	8	.75	9	.44	9	.44	9	.33	9	.33	9	.44
26	Reserve amounts to meet cost of employees leaving balances	8	.75	8	.75	9	.78	9	.78	9	.67	9	.67	11	.73

27	Deposits from other banks	7	1.00	7	1.00	7	1.00	7	1.00	7	1.00	7	1.00	7	1.00
28	Customers' deposits	8	1.00	8	1.00	9	1.00	9	1.00	9	1.00	9	1.00	11	1.00
29	Customers' time deposits	6	1.00	6	1.00	6	1.00	7	1.00	7	1.00	7	1.00	8	.87
30	Saving deposits	7	1.00	7	1.00	8	1.00	8	1.00	8	1.00	8	1.00	9	1.00
31	Other borrowed funds	8	1.00	8	1.00	9	1.00	9	1.00	9	1.00	9	1.00	11	1.00
32	Cash securities	8	1.00	8	1.00	9	1.00	9	1.00	9	1.00	9	1.00	11	1.00
33	Certified cheques	8	.75	8	.87	9	.89	9	.89	9	.89	9	1.00	11	.91
34	Other accounts payable	8	1.00	8	1.00	9	1.00	9	1.00	9	1.00	9	1.00	11	1.00
Contingent accounts and commitments arising from off-balance sheet items															
35	Letters of guarantee	8	1.00	8	1.00	9	.89	9	1.00	9	1.00	9	1.00	11	.91
36	Documentary credits	7	1.00	8	1.00	9	.89	9	1.00	9	1.00	9	1.00	11	.91
37	**Profit and loss account**	8	1.00	8	1.00	9	1.00	9	1.00	9	1.00	9	1.00	11	.91
38	**Notes to the financial statements**	8	1.00	8	1.00	9	1.00	9	1.00	9	1.00	9	1.00	11	1.00
39	**Director's report**	8	.87	8	.87	9	.78	9	.78	9	.78	9	.78	11	.73
40	**Auditor's report**	8	.62	8	.62	9	.67	9	.78	9	.78	9	.78	11	.82

Note: This table details the proportion of Libyan banks complying with each applicable mandated disclosure requirement over the period 2000-2006, while N refers to the number of banks for which each item was applicable.

Table 8.5 indicates significant variation in the extent of disclosures. While most of the items were disclosed by all banks in the sample in each year, several were not, notably "provision against the risk of asset values falling" which was disclosed by between 33% (in 2004 and 2005) and 75% (in 2001) of the banks. The only case where there was no disclosure whatsoever related to the inclusion of depreciation as a liability. This evidence is consistent with findings in El-Sharif's (2006) study of Libyan accounting professionals and academics, who argued that depreciation should be reported as a (reduction in) asset values, and that the Libyan law requiring its disclosure as liability was wrong in principle.

Table 8.6: The Percentage of Libyan Banks Disclosing Applicable Mandatory Items in Each Section of the Annual Report during the Years 2000 to 2006

S/N	Main Parts of Mandatory Disclosure Index	Percentage of disclosed banks						
		2000	2001	2002	2003	2004	2005	2006
1	General information	.93	.87	.94	.94	.94	.89	.86
2	Balance sheet items	.90	.91	.91	.91	.90	.89	.89
3	Contingent accounts and commitments arising from off-balance sheet items	1.00	1.00	.89	1.00	1.00	1.00	.91
4	Profit and loss account	1.00	1.00	1.00	1.00	1.00	1.00	.91
5	Notes to the financial statements	1.00	1.00	1.00	1.00	1.00	1.00	1.00
6	Directors' report	.87	.87	.78	.78	.78	.78	.73
7	Auditor's report	.62	.62	.67	.78	.78	.78	.82

***Note:** This table reports the proportion of Libyan banks disclosing applicable mandatory items in each section of the annual report during the sample years.*

Table 8.6 summarises the previous table by detailing the average disclosure rates for each part of the banks' annual report.

Inspection of the table reveals two main trends. First, there is variability across the annual report in terms of the disclosure levels. Whilst contingent accounts and off-balance sheet finance, as well as the profit and loss account and notes to the financial statements are disclosed fully by all banks in most periods, figures for the directors' and auditor's report are typically below 80%. The evidence regarding the auditors' report is arguably concerning given that, as Chapters 6 and 7 documented, users and preparers attributed a high level of importance to this part of the report. Second, with the exception of the notes to the financial statements and the auditors' report, disclosure levels fall over the period. Such a trend is concerning, although the figures for the end of the period again largely reflect the first inclusion in the sample of one or two banks with particularly poor disclosure levels.

8.2.4 Comparison with Prior Studies

Significant non-compliance with mandatory disclosure requirements has been reported in a number of previous studies, especially in developing countries. Chapter 2 of this dissertation details prior evidence on mandatory disclosure compliance, but it is worth reiterating the key points from this literature in emerging nations to allow the present results to be put into context. Wallace (1988) found that the majority of Nigerian listed companies did not comply fully with legal disclosure requirements. Although in Hong Kong, Benjamin et al. (1990) found that the average rate of non-compliance with disclosure requirements was only 22%. Abayo (1992) reported that Tanzanian companies complied with only 53% of mandatory disclosure items, similar figure to the 60% noted in the Czech Republic by Patton and Zelenka (1997). A study by Owusu-Ansah (1998) found that the level of compliance with mandatory disclosure requirements by Zimbabwean companies was only 74% (admittedly prior to the recent crisis in the country), while an investigation by Xiao (1999) reported that the level of Chinese listed firms' compliance with mandatory disclosure requirements is generally higher than those in other developing countries, but is still not complete. More recently, Hossain (2008) found that Indian banking companies do not fully comply with mandatory disclosure requirements; only 88% of the mandated items were disclosed on average.

In the Islamic world, Naser and Nuseibeh (2003) found that all listed Saudi non-financial companies had relatively high disclosure figures; the average compliance rate with mandatory requirements was 89% (with a range of 69% to 92%). In a study in the same year in the UAE, Al-Shayeb (2003) found that the overall degree of compliance was much lower (49%), with none of the sampled firms complying fully with mandatory disclosure requirements, while Ahmed and Nicholls (1994) found that none of the companies in their sample complied fully with statutory disclosure requirements in Bangladesh. A later study in Bangladesh by Akhtaruddin (2005) also found that listed companies in Bangladesh complied poorly with the mandatory disclosure requirements; on average, the compliance rate was only 44%. More recently, a study by Dahawy and Conover (2007) found that the level of compliance with mandatory disclosure requirements (that are based on IAS) in the actively traded companies listed in Egyptian Stock Market was 61%, while Samaha (2008) found that the overall compliance level in Egypt is very low; on average, the compliance rate was only 50% for IASs disclosure indices (with a range of 0.11 to 0.90).

Finally, Ali et al. (2004) examined the level of compliance with disclosure requirements across three developing countries within South Asia, namely India, Pakistan and Bangladesh and he found that Pakistan had the highest level of overall compliance (80.7%), whereas slightly lower compliance levels were documented for India (78.6%)

and Bangladesh (77.7%), while Al-Shammari (2005) examined the level of compliance with disclosure requirements across the Gulf Co-Operation Council (GCC) member states and he found that the highest average compliance level was found in both the UAE and Saudi Arabia (75%), followed by Kuwait (72%), Qatar (69%), and Bahrain and Oman (both 65%).

What this literature as a whole suggests is that, amongst developing nations, compliance with mandatory disclosure requirements in Libya is relatively high, despite the concerns of users and preparers evident in the two previous chapters. However, the relatively high level of compliance by Libyan banks noted here might reflect the limited nature of the disclosure requirements required by the Libyan authorities as well as the absence of domestic (external) accounting standards (Abulkarim, 2005). As discussed in the literature review chapter, a number of studies of disclosure practices in Libya have also been conducted previously and it is clearly important to compare these studies with the evidence presented here for a more recent time period. Abulkarim (2005)'s comparison of Libyan and Malaysian banks' compliance with the mandatory disclosure requirements during the years of 1997 to 2000 is particular relevant in this regard. Although the study investigates only one bank in each country (the Bank of Commerce and Development in Libya and the Malayan banking Berhad (Maybank) in Malaysia) and a checklist of only 5 items (based on Libyan Commercial Law[118], at the time), the findings revealed that the Bank of Commerce and Development's compliance with mandatory disclosure requirements was 80%. Abulkarim argued that this level of compliance reflects the non-

[118] The mandatory disclosure requirements of Libyan Commercial Law included in Abulkarim's index represent only the main parts of the annual report as a whole, and not the detailed items mentioned in the law. These items are the balance sheet, income statement, directors' report, auditor report and notes to the financial statements.

taxing nature of the requirements. What the present study shows, however, is that using a larger sample of banks and a much fuller checklist, the evidence of high compliance is robust, and applicable to a more recent time period.

The most recent Libyan study was undertaken by Bribesh (2006) who examined compliance with mandatory disclosure requirements in 2003 by 45 firms in the finance, manufacturing, services and construction sectors, using a disclosure index based on 24 items of information reflecting IAS, Libyan Commercial and Tax Laws[119]. The study revealed that while compliance in one sector was 100%, amongst financial companies the average figure was 89%, again in line with the results of the more comprehensive study (in terms of time and index measure) presented here. Overall, the evidence presented here has confirmed that of previous, less detailed studies of Libya (and the rest of the developing world) of compliance levels that appear quite high, but continue to fall well short of full compliance with mandatory requirements. The analysis now extends to incorporate voluntary disclosure as well, to provide a more comprehensive impression of disclosure practices among Libyan banks.

8.3 Measuring the Level of Overall (Mandatory and Voluntary) Financial Disclosure within Libyan Banks' Annual Reports

8.3.1 Aggregate Analysis

The objective of this section of the chapter is to report the level of overall financial disclosure in Libyan banks' annual reports over the years of 2000 to 2006. As mentioned

[119] The IAS requirements were included in the mandatory disclosure index of the Bribesh's (2006) study despite the fact that the IAS requirements have not yet been adopted by Libyan authorities.

in the methodology and methods chapter, an overall financial disclosure checklist (i.e. one that includes both mandatory and voluntary disclosure items) was constructed in order to measure the full level of financial disclosure in Libyan banks' annual reports. This checklist included 126 items of financial information[120]. The same dichotomous procedure that was employed in the previous section (i.e. where each bank was classified as either disclosing or not disclosing a particular item of information) was applied to the examination of overall financial disclosure. The entire annual report of each sampled bank was read first in an attempt to discern which items were applicable to particular banks and reduce the risk of penalising banks for non-disclosure of items that are not relevant to their activities. Table 8.7 details the Overall Number of Financial Items Disclosed (ONFID) by each bank, while Table 8.8 provides summary statistics relating to ONFID for the whole sample in each year.

Table 8.7: The Overall Number of Financial Items Disclosed (ONFID) for Each Bank during the Years of 2000 to 2006

S/N	Name of Bank	ONFID						
		2000	2001	2002	2003	2004	2005	2006
1	Wahda Bank	68	68	73	75	76	74	76
2	Sahara Bank	67	66	70	68	65	65	77
3	Al-Umma Bank	61	60	72	73	72	58	67
4	Gumhouria Bank	79	79	79	79	80	75	79
5	National Commercial Bank	64	64	62	63	61	61	61
6	Development and Commerce Bank	73	79	84	84	79	76	76
7	Mediterranean Bank	50	54	55	54	56	53	56
8	Commercial Arab Bank	46	49	50	51	50	50	53
9	Alsaraya Trading and Development Bank	----	----	62	62	62	62	65
10	Aman Bank for Commerce and Investment	----	----	----	----	----	----	51
11	Alejmaa Alarabi Bank	----	----	----	----	----	----	66

Note: This table details The Overall Number of Financial Items Disclosed (ONFID) for each Libyan bank over the period 2000 to 2006.

[120] Chapter 5 provides details regarding the selection of the 126 items.

Table 8.8: Descriptive Statistics for ONFID for the Whole Sample

Years	Number of banks	Max. Possible Score	Mean	Std. Deviation	Minimum	Maximum
2000	8	126	63.50	11.07	46	79
2001	8	126	64.87	10.72	49	79
2002	9	126	67.44	11.09	50	84
2003	9	126	67.67	11.16	51	84
2004	9	126	66.78	10.57	50	80
2005	9	126	63.78	9.56	50	76
2006	11	126	66.09	10.05	51	79

***Note**: This table details descriptive statistics for the ONFID across all Libyan bank in the sample over the period 2000 to 2006*

Inspection of Table 8.7 indicates that none of the 11 banks in the sample disclosed all 126 items in any of the seven years. The highest level of financial disclosure (84 items) was made in 2002 and 2003 by the Development and Commerce Bank, while the lowest level (46 items) was made in 2000 by Commercial Arab Bank. Table 8.8 indicates that the number of information items disclosed was little more than half the maximum possible throughout the sample, although it increased over the period from 63.50 items in 2000 to 66.09 items in 2006. The highest annual average number was 67.67 in 2003, while the 2000 figure was the lowest.

Once again, these raw figures do not fully reflect disclosure practices since there are several items of information that are not applicable to certain banks. Table 8.9 therefore documents overall financial disclosure index ratios (OFDIRs) for each bank in each year and across the sample period as a whole. OFDIR equals the number of items disclosed divided by the maximum possible number of items applicable in a particular bank's case. Table 8.10 then provides descriptive statistics regarding the OFDIR figures across all the sample banks in each year, and for the entire panel of data.

Table 8.9: The Overall Financial Disclosure Index Ratio (OFDIR) for Each Bank in the Period 2000 to 2006

S/N	Name of Bank	OFDIR*							
		2000	2001	2002	2003	2004	2005	2006	Mean
1	Wahda Bank	.55	.55	.58	.60	.61	.60	.61	.586
2	Sahara Bank	.54	.54	.56	.55	.52	.53	.63	.553
3	Al-Umma Bank	.52	.51	.61	.62	.60	.50	.57	.561
4	Gumhouria Bank	.65	.65	.65	.65	.66	.62	.66	.649
5	National Commercial Bank	.54	.54	.52	.53	.52	.52	.52	.527
6	Development and Commerce Bank	.59	.64	.67	.67	.63	.62	.62	.634
7	Mediterranean Bank	.42	.45	.46	.45	.47	.45	.47	.453
8	Commercial Arab Bank	.39	.41	.42	.42	.42	.42	.44	.417
9	Alsaraya Trading and Development Bank	----	----	.52	.52	.52	.52	.55	.526
10	Aman Bank for Commerce and Investment	----	----	----	----	----	----	.46	.460
11	Alejmaa Alarabi Bank	----	----	----	----	----	----	.61	.610

*Note: This table presents the OFDIR for each bank in the period 2000 to 2006 and for the entire sample period, *OFDIR = Actual Overall Financial Disclosure Index (AOFDI) / Expected Overall Financial Disclosure Index (EOFDI).*

Table 8.10: Sample Averages for the Overall Financial Disclosure Index Ratio (OFDIR) during the Period 2000 to 2006

Years	Number of Banks	Mean	Std. Deviation	Minimum	Maximum
2000	8	.5250	.08468	.39	.65
2001	8	.5363	.08280	.41	.65
2002	9	.5544	.08338	.42	.67
2003	9	.5567	.08631	.42	.67
2004	9	.5500	.07953	.42	.66
2005	9	.5311	.07132	.42	.62
2006	11	.5582	.07600	.44	.66
2000-2006		.5445			

Note: This table presents descriptive statistics for the OFDIR over the period 2000 to 2006 and for the entire sample period across all Libyan banks

Inspection of Table 8.10 indicates that the overall average OFDIR figure was 54.45%, ranging from 52.5% (in 2000) to 55.8% (in 2006). With some exceptions, there was an improvement in the figures over time (contrary to the evidence for mandatory disclosure as revealed in Table 8.4). Table 8.10 also indicates that the lowest (39%) index ratio figure was recorded in 2000, while the highest (67%) index ratio figures were recorded in 2002 and 2003. The variation between maximum and minimum figures peaked at 0.26 in

2000, with the spread between maximum and minimum percentages generally higher than those documented for the mandatory disclosure items in Table 8.4. More importantly, the average figures in Table 8.10 are well below the mandatory ones shown in Table 8.4. This evidence is consistent with prior literature in the area (see Cooke, 1992; Hossain, 2008) and demonstrates that, without mandatory pressure, Libyan banks fail to disclose many (in some cases the majority) of the full set of items. In a decision-usefulness context, such items may clearly be required by users of accounts to gain a sufficiently full picture to allow a firm's activities and future prospects to be judged robustly. Turning to Table 8.9, it is evident that greater inter-bank variability exists than was the case for the MDIR data provided in Table 8.3. In particular, the Commercial Arab Bank generated particularly low figures of between 0.39 and 0.44 whereas several other banks disclosed more than 60% of possible items in most years.

8.3.2 Disaggregated Analysis

As outlined in the methodology and methods chapter, the overall financial disclosure checklist was next divided into 15 main parts and the average level of disclosure (the number of banks disclosing an item divided by the maximum number of applicable cases) for each of 126 items calculated. The results are presented in Table 8.11.

Table 8.11: The Proportion of Libyan Banks Disclosing Individual Items of Financial Information in the Years 2000 to 2006

Overall Financial Disclosure Items															
S/N	Items	2000		2001		2002		2003		2004		2005		2006	
		N	Mean	N	Mean	N	Mean	N	Mean	N	Mean	N	Mean	N	Mean
	General information														
1	Bank's name	8	1.00	8	1.00	9	1.00	9	1.00	9	1.00	9	1.00	11	1.00
2	The legal form of the bank	8	.87	8	.75	9	.89	9	.89	9	.89	9	.78	11	.73
3	Organizational structure	8	.75	8	.75	9	.56	9	.56	9	.44	9	.44	11	.45
4	Brief description of the nature of the bank's activities	8	.25	8	.25	9	.44	9	.44	9	.44	9	.44	11	.54
5	Brief history of bank	8	.25	8	.25	9	.56	9	.56	9	.56	9	.56	11	.54
6	Graphs and photos	8	.50	8	.50	9	.56	9	.56	9	.67	9	.44	11	.73
Information about management and the board of directors															
7	Names of the members of the board of directors	8	.75	8	.75	9	.78	9	.67	9	.78	9	.78	11	.64
8	Names and titles of senior executive managers	8	.75	8	.75	9	.78	9	.67	9	.78	9	.78	11	.54
9	Educational qualifications (Academic and Professional)	8	.00	8	.00	9	.00	9	.00	9	.00	9	.00	11	.00
10	Commercial experience of the directors	8	.00	8	.00	9	.00	9	.00	9	.00	9	.00	11	.00
11	Directors' affiliations with other organisations	8	.00	8	.00	9	.00	9	.00	9	.00	9	.00	11	.00
12	Top management names	8	.75	8	.75	9	.67	9	.67	9	.67	9	.56	11	.45
Corporate Strategy															
13	Statement of general strategy and objectives	8	.00	8	.25	9	.22	9	.22	9	.22	9	.11	11	.18
14	Statement of financial strategy and objectives	8	.00	8	.00	9	.11	9	.11	9	.11	9	.11	11	.09
15	Impact of strategy on current results	8	.00	8	.00	9	.00	9	.00	9	.00	9	.00	11	.00
16	Impact of strategy on future results	8	.00	8	.00	9	.00	9	.00	9	.00	9	.00	11	.00
Projections and budgetary items															
17	Bank plans for the following years	8	.50	8	.37	9	.44	9	.44	9	.33	9	.22	11	.54
18	Plans for future capital expenditures	8	.50	8	.37	9	.44	9	.44	9	.33	9	.33	11	.54
19	Factors affecting bank's future	8	.00	8	.00	9	.00	9	.00	9	.00	9	.00	11	.00
20	Qualitative forecast of sales and profits	8	.00	8	.00	9	.00	9	.11	9	.00	9	.00	11	.00
21	Quantitative forecast of sales and profits	8	.00	8	.00	9	.00	9	.00	9	.00	9	.00	11	.00
22	Economic factors affecting future business	8	.00	8	.00	9	.00	9	.00	9	.00	9	.00	11	.00
23	Technological factors affecting future business	8	.12	8	.12	9	.11	9	.11	9	.00	9	.00	11	.00
Financial Review (Key financial ratios)															
24	Profitability ratios	8	.25	8	.25	9	.22	9	.33	9	.22	9	.11	11	.36

25	Activity ratios	8	.00	8	.00	9	.00	9	.00	9	.00	9	.11	11	.18
26	Liquidity ratios	8	.00	8	.00	9	.00	9	.00	9	.00	9	.00	11	.18
27	Gearing ratios	8	.00	8	.00	9	.00	9	.00	9	.00	9	.00	11	.09
	Stock Information														
28	Size of shareholdings	8	.50	8	.50	9	.56	9	.56	9	.56	9	.56	11	.64
29	Number of shareholders	8	.25	8	.25	9	.33	9	.44	9	.44	9	.33	11	.27
30	Names of senior shareholders	6	.00	6	.00	7	.14	7	.14	7	.14	7	.00	9	.00
31	Type of shareholders	8	.25	8	.25	9	.22	9	.22	9	.22	9	.22	11	.18
32	Geographic distribution of shareholders	5	.00	5	.00	6	.00	6	.00	6	.17	6	.17	8	.12
33	Distribution of shareholders by entity type	5	.00	5	.00	6	.17	6	.17	6	.17	6	.00	8	.00
34	Dividend payout policy	5	.40	5	.60	6	.67	6	.50	6	.67	6	.50	8	.75
35	Dividends paid or declared	8	1.00	8	1.00	9	.89	9	1.00	9	1.00	9	1.00	11	1.00
36	The amount of dividends per share	5	.40	5	.20	6	.17	6	.17	6	.17	6	.17	8	.25
	Income statement Items														
37	Group income and expenses by nature	8	1.00	8	1.00	9	1.00	9	1.00	9	1.00	9	1.00	11	1.00
38	The amounts of principal types of income and expenses	8	1.00	8	1.00	9	1.00	9	1.00	9	1.00	9	1.00	11	1.00
39	Income and expenses should not be offset	8	1.00	8	1.00	9	1.00	9	1.00	9	1.00	9	1.00	11	1.00
40	Income from interest and similar income	8	1.00	8	1.00	9	1.00	9	1.00	9	1.00	9	1.00	11	1.00
41	Expenses from interest and similar expenses	8	1.00	8	1.00	9	1.00	9	1.00	9	1.00	9	1.00	11	1.00
42	Breakdown of interest income and interest expense	8	.75	8	.75	9	.78	9	.78	9	.78	9	.78	11	.82
43	Income from fees for services and commissions	8	1.00	8	1.00	9	1.00	9	1.00	9	1.00	9	1.00	11	1.00
44	Gross profit/loss	8	1.00	8	1.00	9	1.00	9	1.00	9	1.00	9	1.00	11	1.00
45	Expenses from fees for services and commissions	8	1.00	8	1.00	9	1.00	9	1.00	9	1.00	9	1.00	11	1.00
46	Gains less losses arising from dealing in foreign currencies	0	.00	0	.00	9	.67	9	.67	9	.67	9	.67	11	.82
47	Other income from banking operations	8	1.00	8	1.00	9	1.00	9	1.00	9	1.00	9	1.00	11	1.00
48	General administrative expenses	8	1.00	8	1.00	9	1.00	9	1.00	9	1.00	9	1.00	11	1.00
49	Losses on loans and advances	8	.00	8	.00	9	.00	9	.00	9	.00	9	.00	9	.00
50	Other expenses from banking operations	8	1.00	8	1.00	9	1.00	9	1.00	9	1.00	9	1.00	11	1.00
51	Net profit from operations before tax	8	1.00	8	1.00	9	1.00	9	1.00	9	1.00	9	1.00	11	1.00
52	Tax expense	8	1.00	8	1.00	9	1.00	9	1.00	9	1.00	9	1.00	11	1.00
53	Net profit/loss	8	1.00	8	1.00	9	1.00	9	1.00	9	1.00	9	1.00	11	1.00
	Balance sheet Items														
54	Assets and liabilities grouped according to their nature	8	1.00	8	1.00	9	1.00	9	1.00	9	1.00	9	1.00	11	1.00
55	Assets and liabilities listed in order of their liquidity	8	1.00	8	1.00	9	1.00	9	1.00	9	1.00	9	1.00	11	1.00
56	Fixed assets	8	1.00	8	1.00	9	1.00	9	1.00	9	1.00	9	1.00	11	1.00

57	Assets and liabilities should not be offset	8	1.00	8	1.00	9	1.00	9	1.00	9	1.00	9	1.00	11	1.00
58	Cash	8	1.00	8	1.00	9	1.00	9	1.00	9	1.00	9	1.00	11	1.00
59	Cash at the Central Bank	8	1.00	8	1.00	9	1.00	9	1.00	9	1.00	9	1.00	11	1.00
60	Cash at other banks	8	1.00	8	1.00	9	1.00	9	1.00	9	1.00	9	1.00	11	1.00
61	Treasury bills	5	1.00	5	1.00	5	1.00	5	1.00	4	1.00	0	.00	0	.00
62	Investments	8	1.00	8	1.00	9	1.00	9	1.00	9	1.00	9	1.00	9	1.00
63	Percentage or number of shares purchased	8	.25	8	.25	9	.33	9	.22	9	.22	9	.22	9	.11
64	Government treasury bonds	5	1.00	6	1.00	6	1.00	6	1.00	5	1.00	0	.00	0	.00
65	Time deposits with Central Bank	7	1.00	6	1.00	6	1.00	6	1.00	6	1.00	6	1.00	7	1.00
66	Time deposits with other banks	7	1.00	7	1.00	7	1.00	7	1.00	7	1.00	6	1.00	7	1.00
67	Loans and advances to other banks	6	1.00	5	1.00	5	1.00	5	1.00	5	1.00	5	1.00	5	1.00
68	Loans and advances to customers	8	1.00	8	1.00	9	1.00	9	1.00	9	1.00	9	1.00	11	1.00
69	Securities	1	1.00	1	1.00	1	1.00	1	1.00	2	1.00	3	1.00	2	1.00
70	Deposits from other banks	7	1.00	7	1.00	7	1.00	7	1.00	7	1.00	7	1.00	7	1.00
71	Customers' deposits	8	1.00	8	1.00	9	1.00	9	1.00	9	1.00	9	1.00	11	1.00
72	Customers' time deposits	6	1.00	6	1.00	6	1.00	7	1.00	7	1.00	7	1.00	8	.87
73	Savings deposits	7	1.00	7	1.00	8	1.00	8	1.00	8	1.00	8	1.00	9	1.00
74	Other borrowed funds	8	1.00	8	1.00	9	1.00	9	1.00	9	1.00	9	1.00	11	1.00
75	Accumulated depreciation on fixed assets	8	1.00	8	1.00	9	1.00	9	1.00	9	1.00	9	1.00	11	1.00
76	Inclusion of accumulated depreciation in liabilities	8	.00	8	.00	9	.00	9	.00	9	.00	9	.00	11	.00
77	Depreciation based on the straight-line method	8	1.00	8	1.00	9	1.00	9	1.00	9	1.00	9	1.00	11	1.00
78	Provisions against the risk of asset values falling	8	.50	8	.75	9	.44	9	.44	9	.33	9	.33	9	.44
79	Reserve amounts sufficient to meet balances for employees leaving	8	.75	8	.75	9	.78	9	.78	9	.67	9	.67	11	.73
80	Cash securities	8	1.00	8	1.00	9	1.00	9	1.00	9	1.00	9	1.00	11	1.00
81	Certified cheques	8	.75	8	.87	9	.89	9	.89	9	.89	9	1.00	11	.91
82	Amount of nominal capital	8	.87	8	.87	9	1.00	9	1.00	9	1.00	9	1.00	11	.82
83	Reserve levels	8	.87	8	.87	9	.89	9	.89	9	.89	9	.89	11	.91
84	Breakdown of reserves into statutory and non-statutory elements	8	.87	8	.87	9	.78	9	.78	9	.78	9	.78	11	.73
85	Various provisions	8	1.00	8	1.00	9	1.00	9	1.00	9	1.00	9	1.00	11	1.00
86	Retained earnings	8	1.00	8	1.00	9	1.00	9	1.00	9	1.00	9	1.00	11	1.00
Accounting policies															
87	Accounting conventions	8	.12	8	.12	9	.33	9	.33	9	.33	9	.22	11	.36
88	The recognition of revenue and expenditure	8	.25	8	.25	9	.44	9	.44	9	.44	9	.33	11	.64

89	The depreciation methods used	8	.25	8	.25	9	.56	9	.56	9	.56	9	.44	11	.64
90	The depreciation rates used	8	.62	8	.62	9	.67	9	.67	9	.56	9	.56	11	.54
91	Accounting policies for foreign currency	8	.25	8	.25	9	.56	9	.56	9	.56	9	.44	11	.73
92	Accounting policies for investments	8	.25	8	.25	9	.33	9	.33	9	.33	9	.22	9	.56
93	Accounting policies for reserve levels	8	.00	8	.00	9	.11	9	.11	9	.11	9	.00	11	.27
94	Accounting policies for taxation system	8	.00	8	.00	9	.11	9	.11	9	.11	9	.00	11	.36
95	Accounting policies for doubtful debts provision	8	.25	8	.25	9	.56	9	.56	9	.56	9	.44	11	.64
Contingent accounts and commitments arising from off-balance sheet items															
96	Letters of guarantee	8	1.00	8	1.00	9	.89	9	1.00	9	1.00	9	1.00	11	.91
97	Documentary credits	7	1.00	8	1.00	9	.89	9	1.00	9	1.00	9	1.00	11	.91
Maturities of assets and liabilities															
98	Analysis of assets according to maturity date	8	.25	8	.25	9	.33	9	.33	9	.22	9	.22	11	.09
99	Analysis of liabilities according to maturity date	8	.00	8	.00	9	.00	9	.00	9	.00	9	.00	11	.00
100	Grouping of assets and liabilities according to its maturity periods	8	.00	8	.00	9	.00	9	.00	9	.00	9	.00	11	.00
101	Analysis of assets and liabilities according to the period remaining to its maturity date	8	.00	8	.00	9	.00	9	.00	9	.00	9	.00	11	.00
102	Analysis of assets and liabilities according to the period remaining to the repayment date	8	.00	8	.00	9	.00	9	.00	9	.00	9	.00	11	.00
Losses on loans and advances															
103	The accounting policy which describes the basis on which uncollectable loans and advances are recognised as an expense and written off	8	.12	8	.12	9	.11	9	.11	9	.11	9	.11	11	.18
104	Details of movements in the provision for losses on loans and advances during the period	8	.50	8	.50	9	.56	9	.56	9	.56	9	.44	11	.64
105	Losses on uncollectable loans and advances recognised as an expense	8	.62	8	1.00	9	1.00	9	1.00	9	1.00	9	1.00	11	1.00
106	The amount charged in the period for loans and advances is written off	8	.00	8	.00	9	.00	9	.00	9	.00	9	.00	9	.00
107	The amount credited in the period for loans and advances previously written off that have been recovered	8	.00	8	.00	9	.00	9	.00	9	.00	9	.00	9	.00
108	The aggregate amount of the provision for losses on loans and advances at the balance sheet date	8	.62	8	1.00	9	1.00	9	1.00	9	.89	9	.89	11	1.00
109	The aggregate amount included in the balance sheet for	8	.25	8	.37	9	.33	9	.33	9	.33	9	.33	9	.33

	loans and advances on which interest is not being accrued														
110	The basis used to determine the carrying amount of loans and advances on which interest is not being accrued	8	.12	8	.12	9	.11	9	.11	9	.11	9	.11	9	.22
111	Disclosure of all the losses on loans and advances in detail	8	.00	8	.00	9	.00	9	.00	9	.00	9	.00	9	.00
	General banking risk														
112	Any amount set aside in respect of general banking risks	8	.00	8	.00	9	.00	9	.00	9	.00	9	.00	11	.00
113	Any amount set aside in respect of future losses or other unforeseeable risks	8	.00	8	.00	9	.00	9	.00	9	.00	9	.00	11	.00
114	Disclosure of all the amounts set aside separately	8	.00	8	.00	9	.00	9	.00	9	.00	9	.00	11	.00
115	Any set aside amount should be disclosed as appropriations of retained earnings	8	.00	8	.00	9	.00	9	.00	9	.00	9	.00	11	.00
116	Any amounts set aside in respect of contingencies and events occurring after the balance sheet date	8	.00	8	.00	9	.00	9	.00	9	.00	9	.00	11	.00
	Assets pledged as security														
117	The aggregate amount of secured liabilities	8	.00	8	.00	9	.00	9	.00	9	.00	9	.00	11	.00
118	The nature and carrying amount of the assets pledged as security	8	.00	8	.00	9	.11	9	.00	9	.00	9	.11	11	.00
	Other statements and supplementary information items														
119	Chairman of board's speech	8	.12	8	.12	9	.11	9	.11	9	.11	9	.11	11	.00
120	Director's report	8	.87	8	.87	9	.78	9	.78	9	.78	9	.78	11	.73
121	Auditor's report	8	.62	8	.62	9	.67	9	.78	9	.78	9	.78	11	.82
122	Statement of retained earnings	8	.87	8	.87	9	.89	9	.89	9	.89	9	.78	11	.82
123	Statement of sources and application of funds or cash flow	8	.50	8	.50	9	.33	9	.33	9	.33	9	.33	11	.36
124	Statement of changes in owners' equity	8	.50	8	.50	9	.67	9	.67	9	.67	9	.56	11	.73
125	Notes to the financial statements	8	1.00	8	1.00	9	1.00	9	1.00	9	1.00	9	1.00	11	1.00
126	Comparative financial statements for two years or more	8	.87	8	.87	9	1.00	9	1.00	9	1.00	9	1.00	11	.91

***Note:** This table details the proportion of banks reporting each of 126 applicable items in each of the sample years 2000-2006, while N refers to the number of banks where each item is applicable.*

As with the mandatory disclosure, inspection of Table 8.11 reveals substantial variation across items in terms of the proportion of banks disclosing. Whilst many items - particularly those relating to the income statement and balance sheet- were fully disclosed in several cases, for example assets' and liabilities' maturities and general banking risk, no disclosures at all were made in the sample period. Given recent events in the global banking arena, the lack of information in these two specific cases could be seen as worrying for Libyan regulators, and in need of urgent address. With regard to the income statement and balance sheet, the results are generally consistent with the findings of previous studies by Al-Bastaki (1997), Alhajraf (2002) and Al-Shayeb (2003). According to Al-Shayeb (2003, p.116), this evidence simply reflects the fact that the disclosed items represent the basic items which must be included in order to prepare each statement; even in an environment where the overall degree of consistency and robustness in accounting practices may be open to question, certain fundamental elements of financial reporting are constant.

Table 8.12 summarises the results of the previous table, grouping the findings by sections of the annual report.

Table 8.12: The Percentage of Libyan Banks Disclosing Applicable Items in Each Section of the Annual Report during the Years 2000 to 2006

S/N	Main Parts of Overall Financial Disclosure Index	Percentage of Disclosed Banks						
		2000	2001	2002	2003	2004	2005	2006
1	General information	.58	.58	.67	.67	.67	.61	.66
2	Information about management and the board of directors	.37	.37	.37	.33	.37	.35	.27
3	Corporate strategy	.00	.06	.08	.08	.08	.05	.07
4	Projections and budgetary items	.16	.12	.14	.16	.09	.08	.15
5	Financial Review (key financial ratios)	.06	.06	.05	.08	.05	.05	.20
6	Stock information	.31	.29	.35	.36	.39	.33	.36
7	Income statement items	.92	.92	.91	.91	.91	.91	.92
8	Balance sheet items	.90	.92	.91	.91	.91	.90	.88
9	Accounting policies	.22	.22	.41	.41	.40	.29	.53
10	Contingent accounts and commitments arising from off-balance sheet items	1.00	1.00	.89	1.00	1.00	1.00	.91
11	Maturities of assets and liabilities	.05	.05	.07	.07	.04	.04	.01
12	Losses on loans and advances	.25	.35	.35	.35	.33	.32	.37
13	General banking risk	.00	.00	.00	.00	.00	.00	.00
14	Assets pledged as security	.00	.00	.05	.00	.00	.05	.00
15	Other statements and supplementary information items	.67	.67	.69	.69	.69	.67	.67

Note: this table documents the percentage of Libyan banks disclosing items in each section of the annual report during the sample period.

Table 8.12 confirms the extreme variability in the extent of intra-report disclosure; low levels of reporting in the potentially critical areas of "General banking risk", "Assets pledged as security", "Maturities of assets and liabilities", and "Corporate strategy" are evident. The latter results are consistent with the findings of studies by Al-Bastaki (1997) and Alhajraf (2002), with the exception of "Maturities of assets and liabilities" which was found to be disclosed more extensively in the earlier studies. There are also apparent weaknesses in respect of financial disclosures relating to areas such as "Projections and budgetary items", "Information about management and the board of directors" and "Financial Review". These results are again consistent with the findings of Al-Bastaki's (1997) and Al-Shayeb's (2003) studies, with the exception of the "Financial Review" which was found by Al-Bastaki (1997) to be disclosed more widely than in the present study[121]. Al-Shayeb (2003, p.116) suggests three reasons for the paucity of disclosures in these areas in a developing country context. "First, there are no legal requirements to disclose information relating to these categories. Second, there is no demand for such information from the concerned parties. Third, there is a fear of negative reaction if such items are disclosed. Such reaction may come from government, shareholders and competitors".

Whilst disclosure levels in some areas not dominated by mandatory items (e.g. "Accounting policies" where the average ranged from 53% in 2006 to 22% in 2000 and 2001) generated substantial numbers of disclosures, the overall picture regarding the amount of voluntary information preferred by Libyan banks is not overly encouraging. This is a particular concern in a nation where a large-scale stock exchange is about to be established for the first time, for which accurate and detailed price-relevant information will obviously be important in terms of facilitating efficiency and liquidity in the pricing and trading of corporate securities. Whilst this thesis deliberately adopted a decision-usefulness framework in designing the research, the evidence in Table 8.12 must be of some concern to Libyan authorities, irrespective of the reporting purpose assumed.

8.3.3 Comparison with Previous Studies

The negative conclusion above masks the fact that there is some evidence of Libyan banks' disclosure levels improving towards the end of the sample period. Moreover, according to Salah (2002), low levels of disclosure in a Libyan context might reflect several pressures and influences. These relate to: the ambiguity about information users'

[121] Al-Shayeb (2003) did not include this category into the disclosure index of his study.

objectives and needs; the cost of disclosures; the absence of a functioning stock market; the lack of mandatory disclosure requirements; and the low level of awareness of the importance of information to decision makers. Similarly, inadequate regulatory frameworks, poor enforcement mechanisms, the lack of quality in the accounting profession and the absence of an effective capital market were identified as other potential reasons for low levels of accounting disclosure in developing countries by Ahmed and Nicholls (1994). The figures for the Libyan banking sector provided here, while arguably low given the evidence in Chapter 6 and 7 of some confidence in banks' reporting practices, are therefore now set in the context of prior literature. The overall mean disclosure figure of 54.45%, is low in comparison with several previous studies of disclosure practices in developing nations such as Mostafa's (1994) study which found that the proportion of financial disclosures in Kuwaiti banks' financial statements was 57% in 1994; this figure grew to 64% in 2000 according to a later study by Alhajraf (2002). A more recent study by Hossain (2008) found that the extent of financial disclosure in Indian banks' annual reports was 60% (with a range of 48% to 73%).

However, the level of financial disclosure documented here is in line with other key emerging market studies in the literature including Al-Bastaki (1997) which indicated that the level of disclosure in Bahraini banks' annual reports averaged 41% (with a high of 62% and a low of 17%). Nevertheless, when Libya is the focus, the evidence presented here suggests that overall disclosure levels in the banking sector are worryingly low. For example, as noted in the literature review chapter of this thesis, Bribesh (2006) measured the level of overall corporate disclosure in Libyan companies' annual reports in 2003 to be 62% (with a range of 28% to 86%).

The results of the chapter so far also make it clear that overall financial disclosure levels in Libya vary substantially from one bank to another. This finding therefore necessitates investigation of the influences on practices across the sector. The remainder of the chapter therefore aims to examine the nature of relationships between certain firm-specific characteristics and disclosure levels, and to the extent to which these characteristics can explain variability in Libyan banks behaviour in this regard. Section 8.4 reports on a variable by variable investigation of correlation whilst Section 8.5 develops the analysis via use of panel regression to gauge the simultaneous effect of the independent variables.

8.4 The Impact of Firm-Specific Characteristics on the Level of Overall Financial Disclosure

This section begins the analysis of the relationship between Libyan banks' disclosure practices by examining the impact of the chosen variables one at a time. As discussed in the methodology and methods chapter, four independent variables were selected, based on their likely impact on financial disclosure practices, namely: bank size; age of bank; profitability; and ownership structure. The following null hypotheses have been formulated to be tested:

H32: There is no significant relationship between the size of a Libyan bank and the level of disclosures in its annual report.

H33: There is no significant relationship between the age of a Libyan bank and the level of disclosures in its annual report.

H34: There is no significant relationship between the profitability of a Libyan bank and the level of disclosures in its annual report.

H35: There are no significant differences in the levels of disclosure in the annual reports of State-owned banks and private banks.

The above-mentioned independent variables differ in one important characteristic in that three (size, age and profitability) are continuous in nature whilst the fourth (ownership structure) is categorical. The measures used for each variable are outlined in Table 8.13.

Table 8.13: The Independent Variables and their Measurements for the Years 2000 to 2006

S/N	Independent variables	Measurements
1	Bank size	Total assets
2	Bank age	Number of years since establishment
3	Profitability	Net profit
4	Ownership structure	Stated-owned or private status dummy

Note: This table details the four measures used to investigate the determinants of Libyan banks' disclosure levels.

As discussed in the methodology chapter, non-parametric bivariate analysis is carried out to examine the relationship between the independent and dependent variables; multivariate panel regression analysis was then employed in the next section to provide multi-variate evidence regarding the impact of the independent variables.

Since there are two types of measurement scale for the variables employed here, (continuous and categorical), two types of non-parametric tests are necessitated, namely

Kendall's rank correlation coefficient (tau) test and the Mann-Whitney test. Kendall's rank correlation coefficient (tau) test will be used to examine the relationship between the continuous independent variables (bank size, bank age and profitability) and the extent of financial disclosure for each of the seven sample years, while the Mann-Whitney test is used to study the relationship between categorical variable (ownership structure) and the level of financial disclosure for each year.

8.4.1 Bivariate Analysis

8.4.1.1 Bank Size

Table 8.14 illustrates the Kendall's tau-b test findings for each year relating to the association between the bank size proxy (total assets) and the OFDIR figures.

Inspection of Table 8.14 indicates that there was a significant positive association between bank size and the extent of overall financial disclosure for the years 2000, 2004 and 2006; the coefficient ranged in size from 0.546 (2000) to 0.477 (2006). Therefore, the null hypothesis *H32* is rejected for each of these three years. However, Table 8.14 also reveals that there was no significant association between bank size and the extent of overall financial disclosure for the other four sample years (2001, 2002, 2003 and 2005), with p-values ranging from 0.053 to 0.086[122]. Therefore, the null hypothesis *H32* is not rejected in each of these cases.

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[122] 'Significance' has been interpreted according to conventional statistical analysis. However, it is worth noting that significance can be viewed in a wider context than one based purely on statistical thresholds (see, Cohen et al., 1996; Kirk, 1996; Snyder and Lawson, 1993). This issue is returned to in the concluding chapter.

Table 8.14: Correlation between Bank Size and the Overall Financial Disclosure Index Ratio (OFDIR) Level: Kendall's tau-b Results

Year	Independent variable	The Proxy Measures		Overall Financial Disclosure Index
2000	Size of Bank	Total Assets	Correlation coefficient	.546*
			Sig. (1-tailed)	.031
			N	8
2001	Size of Bank	Total Assets	Correlation coefficient	.473
			Sig. (1-tailed)	.053
			N	8
2002	Size of Bank	Total Assets	Correlation coefficient	.366
			Sig. (1-tailed)	.086
			N	9
2003	Size of Bank	Total Assets	Correlation coefficient	.389
			Sig. (1-tailed)	.072
			N	9
2004	Size of Bank	Total Assets	Correlation coefficient	.493*
			Sig. (1-tailed)	.035
			N	9
2005	Size of Bank	Total Assets	Correlation coefficient	.400
			Sig. (1-tailed)	.070
			N	9
2006	Size of Bank	Total Assets	Correlation coefficient	.477*
			Sig. (1-tailed)	.021
			N	11

*Note: This table presents the results of Kendall's tau-b tests investigating the correlation between banks size and OFDIR, while A * indicates that the Correlation is significant at the 0.05 level (on a 1-tailed basis).*

8.4.1.2 Age of Bank

The results of Kendall's tau-b tests investigating the degree of association between bank age and the OFDIR figures are shown in Table 8.15.

Table 8.15: Correlation between Bank Age and the Overall Financial Disclosure Index Ratio (OFDIR) Level: Kendall's tau-b Results

Year	Independent variable	The Proxy Measures		Overall Financial Disclosure Index
2000	Age of Bank	Number of years established	Correlation coefficient	.546*
			Sig. (1-tailed)	.040
			N	8
2001	Age of Bank	Number of years established	Correlation coefficient	.546*
			Sig. (1-tailed)	.040
			N	8
2002	Age of Bank	Number of years established	correlation coefficient	.520*
			Sig. (1-tailed)	.036
			N	9
2003	Age of Bank	Number of years established	Correlation coefficient	.545*
			Sig. (1-tailed)	.028
			N	9
2004	Age of Bank	Number of years established	Correlation coefficient	.570*
			Sig. (1-tailed)	.026
			N	9
2005	Age of Bank	Number of years established	Correlation coefficient	.495*
			Sig. (1-tailed)	.045
			N	9
2006	Age of Bank	Number of years established	Correlation coefficient	.487*
			Sig. (1-tailed)	.025
			N	11

*Note: This table presents the results of Kendall's tau-b tests investigating the correlation between banks age and OFDIR, while A * indicates that the Correlation is significant at the 0.05 level (on a 1-tailed basis).*

Table 8.15 indicates that bank age was significantly and positively correlated with the extent of overall financial disclosure for each of the years in the sample, suggesting a pervasive influence for this factor and supporting rejection of null hypothesis *H33* in each year. This finding is consistent with evidence presented earlier in the chapter that banks entering the sample for the first time towards the end of the period had relatively low disclosure levels.

8.4.1.3 Profitability of Bank

The results of the Kendall tau-b tests examining the nature of correlation between profitability and the OFDIR are shown in Table 8.16.

Table 8.16: Correlation between Bank Profitability and the Overall Financial Disclosure Index Ratio (OFDIR) Level: Kendall's tau-b Results

Year	Independent variable	The Proxy Measures		Overall Financial Disclosure Index
2000	Profitability	Net profit	Correlation coefficient	.400
			Sig. (1-tailed)	.085
			N	8
2001	Profitability	Net profit	Correlation coefficient	.473
			Sig. (1-tailed)	.053
			N	8
2002	Profitability	Net profit	correlation coefficient	.366
			Sig. (1-tailed)	.086
			N	9
2003	Profitability	Net profit	Correlation coefficient	.333
			Sig. (1-tailed)	.105
			N	9
2004	Profitability	Net profit	Correlation coefficient	.435
			Sig. (1-tailed)	.055
			N	9
2005	Profitability	Net profit	Correlation coefficient	.514*
			Sig. (1-tailed)	.029
			N	9
2006	Profitability	Net profit	Correlation coefficient	.440*
			Sig. (1-tailed)	.030
			N	11

*Note: This table presents the results of Kendall's tau-b tests investigating the correlation between banks profitability and OFDIR, while A * indicates that the Correlation is significant at the 0.05 level (on a 1-tailed basis).*

Inspection of the table indicates that there were significant positive correlations between bank profitability of bank and the OFDIR at the 5% level in the years of 2005 and 2006. Therefore, the null hypothesis *H34* is rejected for both these years, but not at other times.

8.4.1.4 Ownership structure of Bank

The Mann-Whitney test was used to compare the average OFDIR level of State-owned and private banks in the sample. Table 8.17 reports the findings of this analysis (based on 0 = State-owned and 1 = non State-owned, i.e. private).

Table 8.17: Correlation between Bank Ownership Structure and the Overall Financial Disclosure Index Ratio (OFDIR) Level: Mann-Whitney's results

Year		Ownership structure	
2000	OFDIR	0	1
	No of cases	5	3
	Mean rank	5.2	3.33
	Mean-Whitney U	4.000	
	Z value	-1.050	
	Sig. (1-tailed)	0.196	
2001	OFDIR	0	1
	No of cases	5	3
	Mean rank	5.2	3.33
	Mean-Whitney U	4.000	
	Z value	-1.050	
	Sig. (1-tailed)	0.196	
2002	OFDIR	0	1
	No of cases	5	4
	Mean rank	5.9	3.88
	Mean-Whitney U	5.500	
	Z value	-1.107	
	Sig. (1-tailed)	0.143	
2003	OFDIR	0	1
	No of cases	5	4
	Mean rank	6	3.75
	Mean-Whitney U	5.000	
	Z value	-1.225	
	Sig. (1-tailed)	0.143	
2004	OFDIR	0	1
	No of cases	5	4
	Mean rank	6	3.75
	Mean-Whitney U	5.000	
	Z value	-1.246	
	Sig. (1-tailed)	0.143	
2005	OFDIR	0	1
	No of cases	5	4
	Mean rank	5.8	4
	Mean-Whitney U	6.000	
	Z value	-0.988	
	Sig. (1-tailed)	0.206	
2006	OFDIR	0	1
	No of cases	5	6
	Mean rank	7.70	4.58
	Mean-Whitney U	6.500	
	Z value	-1.555	
	Sig. (1-tailed)	0.063	

Note: *This table presents the results of Kendall's tau-b tests investigating the correlation between banks ownership structure and OFDIR, while 0 = State-owned ownership; 1 = non-State-owned ownership (private).*

Inspection of the table illustrates that there were no significant differences between the OFDIR data across the two groups in any sample year. The lowest p-value was 0.063, recorded in 2006; whilst at the 10% level this figure suggested higher disclosure by State-owned firms, at the conventional 5% level, the difference was insignificant.

8.4.2 Panel Regression Analysis

The results of the previous section suggest that there may be one or more identifiable influences on the OFDIR figures. However, the analysis so far has: (i) concentrated solely on correlation analysis, meaning that it is only the degree of association between variables that has been examined, not any directional influence of the independent variables; (ii) involved one explanatory variable at a time, rather than a multivariable approach that allows the simultaneous impact of different factors to be considered; and (iii) investigated the data on a year-by-year basis. To deal with all three of these issues, panel regression analysis was undertaken.[123]

The panel regression was performed on the basis of the 56 observations relating to the eight banks which produced annual reports for each of the seven sample years. As the earlier sections of this chapter have discussed, the data for the three Libyan banks that produced their first annual reports in 2002-2006 were different in nature to those of the longer-established banks; these banks (the Alsaraya Trading and Development Bank, the Aman Bank for Commerce and Investment and the Alejmaa Alarabi Bank) were

[123] Although conventional multiple regression analysis can be used on panel data, they are not optimal because of the bias potentially caused by omitted variables; the version of panel analysis employed here specifically addresses the issue of omitted variable form via the use of the Hausman test as detailed later.

therefore excluded from the analysis and the resultant balanced panel of 56 observations used.

Prior to performing the analysis, the extent of any multi-collinearity amongst the three continuous explanatory variables was examined via variance inflation factor (VIF) analysis.[124] The resultant factors were 1.93 (for bank profit), 4.98 (age) and 5.46 (size). Econometric literature suggests that VIF factors up to and around 5 are acceptable, with a typical cut-off value of 10 regularly indicated (see, e.g., Kutner, 2004)

Next, a Hausman test of model specification was applied to the data to determine whether the regression should be performed on the basis of cross section and/or period random effects.[125] The results are shown in Table 8.18 below:-

Table 8.18: Hausman Test Results

Test Basis	Chi-Squared Statistic	Degrees of Freedom	p-value
Cross-section random	38.86	3	0.00
Period random	0.00	3	1.00
Cross-section and period random	1.25	2	0.53

Notes: This table details the results of the Hausman test for correlated random effects as per Hausman (1978)

Inspection of Table 8.18 reveals that the null hypothesis of no mis-specification is rejected for the cross-section random assumption, but supported otherwise. The panel

[124] The VIF technique has been used in prior related studies of disclosure practice determinants in developing countries, see e.g. Hassan et al. (2006). Gujarati (1995 p. 328) provides a full explanation of the econometric underpinnings of the VIF technique.
[125] See Hausman (1978)

regressions were therefore performed on the basis of cross-section fixed effects and random period effects. The results of this analysis are presented in Table 8.19 below[126]:-

Table 8.19: Panel Regression Results

Independent Variables	Coefficient Estimate	Standard Error	t-statistic	p-value
Constant	0.4883*	0.0762	6.41	0.000
Profit	0.0037*	0.0012	3.02	0.002
Size	-0.0009	0.0007	-1.21	0.117
Age	0.0020	0.0035	0.57	0.285
N	56			
R^2adjusted	0.92			
F-stat	64.91*			

*Notes: This table details the results of the panel regression results; OFDIR is the dependent variable. A * indicates significance at the 5% level on a one-tailed basis. The profit and size coefficients and standard errors are based on division of the data by 1,000,000 and 100,000,000 respectively.*

Inspection of the table reveals that when the explanatory variables are investigated together, both profit and age appear to exert a positive influence on the OFDIR figures, whereas size has a negative impact. However, the only one of these effects to be significant is profit, where a one-tailed p-value of 0.002 suggests a strong relationship between net profit and the level of disclosure emanating from Libyan banks. This evidence suggests that the propensity for Libyan banks to disclose large numbers of information items is not random, but is instead a function of the firm's current earnings level. In this respect, the findings are consistent with earlier evidence for North Africa, albeit for the more developed market of Egypt, in Hassan et al. (2006) and also consistent with another African study by Barako (2007) on Kenya[127].

[126] In the panel regressions, performed using EViews, the ownership structure variable was found to be redundant and was dropped from the analysis, leaving the three continuous variables in the model.
[127] The evidence is also inconsistent with an earlier developed market study in Spain by Inchausti (1997).

The evidence of a lack of a significant relationship between OFDIR and bank size is arguably surprising. However, in this context firm size might have a two-dimensional (opposing) influence; whilst larger firms might be expected to face a greater demand for information, investors in smaller firms may face relatively greater problems relating to information asymmetry and thus require higher levels of disclosure to deal with the attendant agency problem (Burton and Power, 2003). In addition, the evidence in Hassan et al. (2006) suggests that firm size has a negative effect on mandatory disclosure levels but a positive influence on voluntary disclosure.[128] Given that Barako (2007) reports firm size as having a positive impact on voluntary disclosure. The results for overall disclosure levels presented here are consistent with the contra-directional effects canceling each other out when overall (i.e. OFDIR) disclosure is the focus as in the present case.

In so far as comparison with the Hassan et al. (2006), Barako (2007) and Inchausti (1997)[129] studies is concerned, the evidence here suggests that influences on disclosure practices in Libyan banks are similar to those found in emerging markets such as Egypt and Kenya, although it is important to note that Hassan et al.'s study specifically focused on *non-financial* firms, while Barako's study focused on both *financial and non-financial* companies. As the present study is novel in investigating disclosure practices specifically in the banking sector of a developing nation, direct comparability with equivalent earlier studies is difficult. Nonetheless, it appears that behavior in the Libyan financial sector has at least one commonality with published evidence regarding other parts of developing economies (i.e. the influence of profitability); this degree of consistency may be of

[128] Indeed, in Hassan et al. (2006) profit is the only continuous variable that impacts on both voluntary and mandatory disclosure levels in a directionally-consistent manner.
[129] Firm age was not examined as characteristic amongst all those studies.

relevance to Libyan regulators who are faced with the challenging task of integrating the nation's new capital market – which includes several banks amongst its listed members – at a time of global market uncertainty and volatility.

8.5 Summary and Discussion

This chapter has presented quantitative analyses of financial disclosure practices in Libyan banks' annual reports, identifying mandatory and overall disclosure levels. The main findings of this investigation can be divided into six parts as follows:

First, Libyan banks failed to comply fully with mandatory disclosure requirements in any of the sample years (2000-2006); on average the level of compliance was 89% and none of the sampled banks complied fully with mandatory disclosure requirements (with a range of 74% to 97%). Generally, the level of Libyan banks' compliance with mandatory disclosure requirement increased until 2003 (89.89%) and then started declining gradually until 2006 (87.55%). This part of the analysis also reported some variation in the level of compliance with mandatory disclosure by Libyan banks in each given year in the sample. The finding of this part is, to a substantial extent, consistent with those of earlier studies in developing nations, although Libyan banks actually perform well relative to much of the prior evidence in this regard.

Second, in terms of overall levels of financial disclosure in Libyan banks' annual reports, this chapter reported that the figures were low; only 54% of 126 information items were disclosed on average by sample banks (with a range of 39% to 67%). However, with some exceptions, the disclosure level increased over the period of time studied, whilst the overall figures suggested substantial variation across the banks in the sample. The low level of financial 'disclosure reported in this part was not unexpected given: (i) the weakness of statutory disclosure requirements in Libya; (ii) the absence of domestic (or external) disclosure standards; (iii) the absence of a developed stock market which might motivate firms to improve disclosure in their annual reports to be listed and reduce the cost of capital; (iv) the lack of pressure from Libyan investors on firms to disclose more information; (v) the culture of secrecy that has pervaded in Libya for many decades; (vi) the non-existence of international audit firms which might have more influence on the level of financial disclosures than do local ones because international audit firms are larger and have more expertise in auditing (Wallace et al., 1994). Small audit firms generally do not have the power to influence the disclosure practices of their clients, and often try to meet the needs of their clients so as to keep their business (Wallace and Naser, 1995).

Third, the significant variation in the overall financial disclosure levels necessitated consideration of several potential explanatory factors, namely: size; age; profitability; and ownership structure of bank. Bivariate analysis indicated that there were significant positive association between the extent of overall financial disclosure and age for each of the years in the sample, for size for the years 2000, 2004 and 2006 and profitability for the years of 2005 and 2006, but no significant association existed for the other sample years. Furthermore, there was no significant difference found between the overall financial disclosure level and ownership status in any of sample years.

Fourth, with regard to the explanatory power of the independent variables, multivariate panel regression analysis showed that both profit and age appear to have a positive impact on the overall financial disclosure level, whereas size has a negative influence. However, the only one of these effects to be statistically significant is the one relating to profit. This result suggests that the level of financial disclosure increases in the annual reports of highly profitable banks, which is consistent with the classic signaling theory perspective of Michael Spence and others[130], i.e. the managers of profitable firms have incentives to disclose more information to distinguish their firm from others. Prior developing nation studies, have tended to focus only one year, using simple OLS regression model, but report broadly the same empirical findings for non-financial and financial firms, for instance Cerf (1961), Singhvi (1968), Belkaoui and Kahl (1981), Wallace et al. (1994), Wallace and Naser (1995), Raffournier (1995), Owusu-Ansah (1998), Hossain (2008). Regarding size and age, the results are arguably surprising, in that older firms are often shown to be larger and more profitable; moreover, several prior research studies (e.g. Cerf, 1961; Firth, 1979; Ahmed and Nicholls, 1994; Wallace 1987; Chow and Wong-Boren, 1987; Cooke, 1989 and 1992; Hossain et al., 1994; Al-Bastaki, 1997; Al-Shayeb, 2003; Spiegel and Yamori, 2004; Karim and Ahmed, 2005; etc.) have found size to be a significant influence, while firms with many years of experience are more likely to include substantial information in their annual reports in an effort to improve their reputation and standing in the capital market (Akhtaruddin, 2005). The benefit of panel regression analysis, as adopted here, is that it allows for the direct impact of potentially inter-related variables to be highlighted in a robust manner.

[130] The seminal paper is Spence (1973).

Fifth, when considering Chapter 6, 7 and 8 together, it is evident that the perceptions of preparers and users groups about financial disclosure practices are consistent with the findings of this chapter in some, but not all, respects. In terms of mandatory disclosure, despite the fact that Libyan banks did not comply fully with mandatory disclosure requirements in any of the sample years, evidence suggests a high degree of compliance with disclosure requirements by Libyan banks. This result is consistent with the evidence in Table 6.9 of Chapter 6 where preparer groups were shown to be relatively satisfied about the extent to which Libyan banks comply with mandatory disclosure requirements. However, the evidence is not consistent with the finding in Table 7.15 of Chapter 7 where user groups were found to be unsatisfied with the level of Libyan banks' compliance with disclosure requirements. The evidence in the current chapter lends further credence to the view suggested in the questionnaire analysis that the users' perceptions are less consistent with the reality, reflecting a relative lack of awareness about the limited nature of current mandatory disclosure requirements in Libya.

Finally, with regard to overall financial disclosure, the results of this chapter are consistent with the findings in Chapter 7 where Table 7.5 showed that user groups were least satisfied with the quantity of the disclosures made in Libyan banks' annual reports. However, the evidence is not consistent with the findings in Table 6.10 in Chapter 6 where preparers were reported to be reasonably satisfied with the amount of financial disclosure in Libyan banks' annual reports. The difference in perceptions regarding mandatory and voluntary disclosures is interesting, given the findings of lower (relative to prior evidence) total disclosure than mandatory disclosure among Libyan banks. The evidence overall suggests that, even though voluntary and mandatory disclosure levels differ, with the latter typically being more extensive, users' expectations are met less comprehensively in both cases than are those of preparers. McNally et al. (1982) notes that disclosure practices have been slow in changing relative to users needs. Notwithstanding this point, the apparent gaps in perceptions from reporting practices that emerges from inspection of Chapters 6-8 as a whole is obviously concerning from a decision-usefulness point of view. However, it also points to the importance of the analysis presented in this chapter in contextualising the questionnaire evidence. Further analysis of the results of the thesis, including further consideration of the three sets of empirical results as a whole, is set out in the next, concluding, chapter.

Chapter Nine
Summary and Conclusions

9.1 Introduction

The aim of this chapter is to summarise the thesis and outline the empirical results as well as setting them in the context of the study's aims and objectives. In particular, the chapter attempts to provide an overview of the three sets of empirical findings and draw some pervasive conclusions about disclosure practices in Libyan banks' annual reports. The remainder of this chapter is organised as follows. Section 9.2 provides a general summary of the research, before Section 9.3 discusses the major findings of the study. Section 9.4 then outlines the main limitations and suggests a number of potential areas in which further research could usefully develop the empirical work documented here.

9.2 Overview of the Research

Chapter 1 of the thesis introduced and outlined the structure of the research and Chapter 2 provided background information regarding the extant political, economic and financial reporting environment in Libya as well as the structure of the nation's banking industry. Chapter 3 presented a literature review which highlighted the large number of studies in the area of annual report disclosure in both developed and developing countries, but noted the need for a modern analysis of the Libyan banking sector, given the importance of the latter in the nation's on-going market reform programme. Chapter 4 discussed the theoretical issues relating to a study of disclosure practices such as this. Two main approaches relating to the objectives of accounting information, accountability and decision usefulness, were outlined in detail. It was concluded that the decision usefulness approach is the most appropriate theoretical framework for the study, given its objectives and the Libyan context. Chapter 5 then developed these ideas to outline the research paradigm, methodology and methods; a justification for (and explanation of) the particular research techniques employed was also presented. Chapters 6, 7 and 8 presented the results of the empirical work. Chapter 6 investigated the perceptions of preparer groups regarding Libyan banks' disclosure practices, while Chapter 7 examined the perceptions of users about the content and usefulness of Libyan banks' annual reports. Chapter 8 then outlined the extent of overall financial disclosure in Libyan banks' annual reports and the degree of Libyan banks' compliance with mandatory disclosure requirements on the basis of a quantitative disclosure index-based investigation.

9.3 Summary of the Empirical Findings

This section of the chapter attempts to summarise the results from the three strands of empirical analysis conducted in the study, highlighting differences in the findings, but also attempting to draw common themes from the various sets of results.

The objective of the research outlined in the Chapter 6 was to evaluate attitudes and perceptions of preparers about financial disclosure practices evident in Libyan banks' annual reports; the issues focused on the decision-usefulness approach of the research, but in the context of a developing country with only an emerging securities market in existence. Four preparer groups were targeted to take part in a questionnaire that explored perceptions about disclosure practices in Libyan banks' annual reports. The evidence illustrates that, from the preparers' perspective, management and the board of directors are the most important users of Libyan banks' annual reports, followed by shareholders, while the main purpose of these documents is perceived as to being the provision of information to assist the Central Bank of Libya (CBL) in its monitoring and supervision activities.

Regarding the importance of different parts of annual reports for making financial decisions, the results demonstrated that the balance sheet is seen by preparers as the most important section, followed by the income statement. As regards views regarding influences on Libyan banks' disclosure practices and choice of accounting policies, the evidence shows that the board of directors is perceived as being the most influential group of individuals, followed by managers of accounting departments, while Banking Law No. 1 (2005) is seen as the most influential factor, followed by Income Tax Law.

The evidence from Chapter 6 also indicates that preparers view publishing delays are the most significant problem for users of Libyan banks' annual reports, while a lack of professional or qualified accountants is the most significant factor restricting the quantity of disclosure (followed by weaknesses in accounting practices and a lack of enforcement mechanisms). The evidence also suggests that Libyan banks are perceived by preparers as complying reasonably well with existing mandatory disclosure requirements; there was evidence of satisfaction with the quality and the quantity of the disclosures made in Libyan banks' annual reports, both in absolute terms and –especially- relative to other sectors. Encouragingly, it appears that the development of the Libyan stock market and on-going economic reforms are seen by preparer groups as overwhelmingly positive in terms of financial reporting in the banking industry. One final piece of evidence of note in Chapter 6 is that the preparer groups strongly agreed with the statement that "Libyan banks' external auditors should be independent of management influence". At the other extreme, the statement that "annual reports should be available publicly" generated the lowest mean, suggesting that the cultural context in Libya of closely-controlled media and limited information releases impacts on expectations of the potential role of corporate annual reports; this finding again indicates the need for a framework other than accountability to be applied in developing countries such as Libya.

Chapter 7 detailed evidence from a questionnaire-based investigation into the views of six groups of users of Libyan banks' annual reports regarding the quality, role and influences on the disclosures therein. The evidence from this chapter suggests that the annual reports of Libyan banks are frequently used for making financial decisions and are in fact considered to be the most important source of information for making economic and financial decisions about such firms. However, users indicate that the main perceived purpose of the annual report is to provide information to the CBL for monitoring and supervision purposes (followed by assisting managers in running their businesses).

The evidence from Chapter 7 also highlights that users believe the quality of current financial disclosure in Libyan banks' annual reports to be satisfactory, both in absolute terms and relative to other sectors. However, the quantity of current financial disclosure is seen as inadequate in absolute terms (but satisfactory relative to other sectors). Reliability and relevance of the information are the most important characteristics of financial information from the users' point of view, but a lack of the former is the most significant perceived problem regarding Libyan banks' annual reports, followed by delays in publishing. In contrast, a lack of time available is seen as the least significant problem faced by user groups.

Overall, users think the income statement is the most important part of the annual report for decision-making, followed by the balance sheet. With regard to how perceptions regarding specific quality dimensions (i.e., understandability, reliability, relevance, comparability and materiality) varied across the individual parts of Libyan banks' annual reports, the evidence in Chapter 7 indicates that users do not generally feel that they have any difficulties in understanding different sections of the report. In terms of reliability and relevance, users perceive the auditor's report to be the most reliable section of the annual report for decision-making, followed by the income statement and balance sheet, whereas the income statement is seen as the most relevant, followed by the auditor's report and the balance sheet. As regards comparability and materiality, the evidence in the study encouragingly reveals that all sections of Libyan banks' annual reports are perceived by users to be more than satisfactory, although concern appears to exist about the current degree of compliance with mandatory requirements.

Chapter 7 also sought out views of users regarding the development of the LSM and recent economic reforms; both were seen as likely to have a positive impact on financial disclosure practices amongst Libyan banks. These appeared to have some concerns regarding independence enforcement issues. In particular, user groups strongly supported the notion that "Libyan banks' external auditors should be independent of management influence" and believed that the CBL should play a key role in terms of pushing banks to comply with regulations and laws and in monitoring their implementation. Finally, it was notable that -as with the preparers in Chapter 6- the statement that "annual reports should be available publicly" generated the lowest level of support.

Having examined perceptions in Chapters 6 & 7, the objective of the research outlined in Chapter 8 was to examine actual disclosures in Libyan banks' annual reports over the period 2000-2006. The analysis included examination of the level of compliance with mandatory disclosure requirements, measuring the extent of overall financial disclosure and investigating the relationship between certain factors (bank size, age of bank, profitability and ownership structure) and disclosure levels. The evidence from this chapter reveals that Libyan banks failed to comply fully with the applicable mandatory disclosure requirements in any given year in the sample; the average compliance rate was only 89.12%, but this level of disclosure was shown to be high compared to levels reported in other developing nations. Worryingly, the percentage of mandated items disclosed decreased across the period from 89.38 % in 2000 to 87.55% in 2006.

Chapter 8 also explored the level of mandatory plus voluntary disclosure within Libyan banks' annual reports by developing an overall disclosure index. With regard to overall disclosure levels, the findings reveal that the extent of overall disclosure over the seven-year sample period was 54.45%; the average figures ranged inter-temporally from 52.5% (in 2000) to 55.8% (in 2006). In contrast to the pattern in mandatory disclosure, there was an improvement in the figures over time, with the figures increasing from 52.5 % in 2000 to 55.82% in 2006; on average, the lowest (39%) index ratio figure was recorded in 2000, while the highest (67%) index ratio figures were recorded in 2002 and 2003.

The significant variation in the overall disclosure levels across banks and years necessitated consideration of several factors that might affect the level of financial disclosure, namely: size; age; profitability; and ownership structure of bank. By examining the nature of the relationships between the chosen variables and the overall disclosure levels, the bivariate analysis revealed that there was a significant positive association between the extent of overall financial disclosure and: age (for each of the years in the sample); size (for the years 2000, 2004 and 2006); and profitability (for the years of 2005 and 2006). There was, however, no significant link between the disclosure levels and ownership status (i.e. public v. private) in any of sample years. To highlight the simultaneous impact of each of the three continuous explanatory variables across banks and years, multivariate panel regression analysis was then employed. The results of this showed that both profit and age have a positive impact on overall disclosure levels, whereas size has a negative influence. However, the only one of these effects to significant be in its own right is profit, thus suggesting that the propensity, to disclose is closely linked to financial performance and presumably the desire to disclose information more fully when financial success has occurred.

Having provided a narrative overview of the key results, Table 9.1 is now presented, where each specific hypothesis tested and the associated result is listed.

Table 9.1: The Research Hypotheses and Results

S/N	Null Hypotheses	Result
H1	There is no significant difference among the groups of preparers in terms of the importance of Libyan banks' annual reports for different user groups.	Not rejected
H2	There is no significant difference among the groups of preparers in terms of the purpose of financial disclosure in Libyan banks' annual reports.	Rejected
H3	There is no significant difference among the preparer groups in terms of the importance that they attach to the different sections of Libyan banks' annual report for financial decision-making.	Not rejected
H4	There is no significant difference among the groups of preparers in terms of the influence of potential interested parties on Libyan banks' financial disclosure practices and their choice of accounting policies.	Not rejected
H5	There is no significant difference among the groups of preparers in terms of the influence of the specified factors on financial disclosure practices within Libyan bank's annual reports and their choice of accounting policies.	Not rejected
H6	There is no significant difference among the groups of preparers in terms of the significance of specific problems for users of Libyan banks' annual reports.	Not rejected
H7	There is no significant difference among the groups of preparers in terms of perceptions about specific factors that might restrict the quantity of financial disclosure in Libyan bank's annual reports.	Not rejected
H8	There is no significant difference among the groups of preparers about the degree of Libyan banks' compliance with existing mandatory disclosure requirements.	Not rejected
H9	There is no significant difference among the preparer groups in terms of perceptions of the quality and quantity of financial disclosure in Libyan banks' annual reports.	Not rejected
H10	There is no significant difference among the groups of preparers in terms of the quality and quantity of financial disclosure in Libyan banks' annual reports relative to other sectors.	Not rejected
H11	There is no significant difference among the groups of preparers about the importance of the LSM's role regarding Libyan banks' financial disclosure practices.	Not rejected
H12	There is no significant difference among the preparers of accounts about the effects of recent economic reforms on financial disclosure practices in Libyan banks' annual reports.	Not rejected
H13	There is no significant difference among the groups of preparers about the normative statements regarding financial disclosure practices within Libyan banks' annual reports.	Rejected
H14	There is no significant difference among the groups of users regarding their frequency of annual reports usage for making financial decisions.	Rejected
H15	There is no significant difference among the groups of users in terms of the perceived purpose of Libyan banks' annual reports.	Rejected
H16	There is no significant difference among the groups of users in terms of their importance attached to various sources of financial information.	Not rejected

H17	There is no significant difference among the groups of users in terms of perceptions of the quantity and quality of financial disclosure in Libyan banks' annual reports.	Not rejected
H18	There is no significant difference among the groups of users in terms of perceptions about the quality and quantity of financial disclosure in Libyan banks' annual reports relative to other sectors.	Not rejected
H19	There is no significant difference among the groups of users in terms of the perceived importance they attach to different criteria that might affect the quality of financial information disclosed in Libyan banks' annual reports.	Not rejected
H20	There is no significant difference among the groups of users in terms of the significance of specific problems with using Libyan banks' annual reports.	Rejected
H21	There is no significant difference among the groups of users in terms of the importance that they attach to different parts of Libyan banks' annual reports for decision-making.	Rejected
H22	There is no significant difference among the groups of users regarding the understandability of different sections of Libyan banks' annual reports.	Not rejected
H23	There is no significant difference among the groups of users about the reliability of different sections of Libyan banks' annual reports.	Not rejected
H24	There is no significant difference among the groups of users about the relevance of different sections of Libyan banks' annual reports.	Rejected
H25	There is no significant difference among the groups of users about the comparability of different sections of Libyan banks' annual reports.	Not rejected
H26	There is no significant difference among the groups of users about the materiality of different sections of Libyan banks' annual reports.	Rejected
H27	There is no significant difference in views among the six user groups about the degree of Libyan banks' compliance with mandatory disclosure requirements.	Not rejected
H28	There is no significant difference among the groups of users about the importance of the LSM's role regarding financial disclosure practices by Libyan banks.	Not rejected
H29	There is no significant difference among the groups of users about the effects of recent economic reforms on financial disclosure practices in Libyan banks' annual reports.	Not rejected
H30	There is no significant difference among the groups of users about normative statements regarding financial disclosure practices in Libyan banks' annual reports.	Not rejected
H31	Libyan banks do not comply fully with mandatory disclosure requirements set by Libyan authorities.	Not rejected
H32	There is no significant relationship between the size of a Libyan bank and the level of disclosures in its annual report.	Not rejected
H33	There is no significant relationship between the age of a Libyan bank and the level of disclosures in its annual report.	Not rejected
H34	There is no significant relationship between the profitability of a Libyan bank and the level of disclosures in its annual report.	Not rejected
H35	There are no significant differences in the levels of disclosure in the annual reports of State-owned banks and private banks.	Rejected

9.4 Policy Implications

The observed non-compliance reported in this study might reflect the absence of a developed regulatory framework, the lack of an enforcement mechanism to monitor the implementation of these requirements and/or the absence of formal penalties for not fully complying. These issues require urgent action from the Libyan authorities in general -and the CBL in particular- to establish a powerful formal enforcement mechanism, one that ensures Libyan commercial bank's compliance with disclosure requirements and imposes penalties for non-compliance.

The evidence of reasonable satisfaction with current practices suggests that domestic users and preparers are unlikely to exert much pressure on firms to disclose more; it is therefore up to Libyan authorities to take the pro-active measures needed to improve disclosure levels and provide potential new investors –many of whom will be international for the first time as market liberalism develops- with the information required to make Libyan bank investment low-risk. In so doing this new approach should provide the banks themselves with access to capital funds at relatively low costs.

In addition to the aforementioned reasons, the low levels of disclosure might reflect the absence of a stock market (at the time of the study), the lack of qualified accounting professionals and the non-existence of domestic (external) accounting standards. In this context, the Libyan authorities should update and widen the disclosure requirements set out in the Libyan Commercial Code to meet the rapid changes in the needs and requirements of user groups of accounting information for firms in general and banks in particular, given the turmoil on global markets recently. Libyan authorities -the CBL in particular- should consider adopting external (international) accounting standards or create domestic accounting standards to increase the level of disclosures in Libyan banks' annual reports in order to meet users' needs and requirements in the new market environment.

Since the lack of qualified accountants was considered by preparer groups to be the most significant restriction on the quantity of disclosure in the annual reports, Libyan banks' management should provide more training and qualifying programs for accountants to enhance and improve their accounting and finance skills.

The evidence in this study has suggested that Libyan academics make little use of annual reports for teaching and research purposes. Since it is widely recognised that academics have played a significant role in developing accounting practices in both developed and developing nations (Riahi-Belkaoui, 1997), the Libya authorities in general – and the Libyan Accountants and Auditors Association (LAAA) in particular- should consider organising conferences in accounting and finance at least once a year in order to provide researchers with the opportunity to disseminate their work and enhance understanding of the role of accounting in a modern market setting.

The findings of this study revealed that user groups may have relatively little awareness of the limited nature of the mandatory disclosures currently required by Libyan regulation. This evidence in turn suggests that authorities have much work to do in terms of educating users about the mandated rules.

The evidence in this study suggests that Libyan banks' annual reports remain the most important source of information for decision-making. This finding raises obvious issues, however, given that a lack of reliability and a delay in publishing annual reports were seen as relatively significant issues. Therefore, the Libyan authorities should seriously consider enhancing the status of annual reports and improving their usefulness. In particular, it should be ensured that domestic banks publish their annual reports in a timely fashion and display them in the places required by Banking Law No.1 (2005) – with penalties being imposed for non-compliance.

The development of the LSM was seen by both preparers and users as likely to have a positive impact on financial disclosure practices amongst Libyan banks, and both groups are pinning great hopes on the market to play this role. Therefore, the management of the LSM should consider adopting external (international) accounting standards and/or create its own accounting standards and requirements, with which listed companies are required to comply with; the imposition of rigorous penalties for non-compliance would clearly be important in this regard.

The findings of the current study also revealed that both preparers and users have some concerns about the independence of external auditors from Libyan banks' management. Therefore, if robust monitoring of reporting in the banking sector is to occur, Libyan regulators should ensure sufficient autonomy for external auditors from the banks' management, or any other interested groups, by appointing independent, reputable, and competent external auditors -or even consulting with international auditing firms- to certify banks' financial statements.

The findings of this study indicated that, while many items were fully disclosed in several cases, there were no disclosures at all in the sample period for a number of items, including assets' and liabilities' maturities and general banking risk. Given recent events in the global banking arena, the lack of information in these two specific areas could be seen as worrying for Libyan regulators, and in need of urgent address.

9.5 Limitations and Future Research:

As with any study that is primarily exploratory in nature, the work has several limitations that require articulation.

First, the empirical findings in chapters 6 and 7 are based on the perceptions of a specific number of groups of preparers and users of Libyan banks' annual reports. Those targeted for the surveys are by no means the entirety of either population, however, and over-generalisation is a danger when drawing conclusions from this type of analysis. Further research could therefore usefully investigate the views of other preparers and users of annual reports.

Second, findings in the thesis are based on one specific sector, the commercial banking sector. While this choice was deliberate, given the importance of the sector to the recent changes in Libya's real and financial markets, the issue of the extent of generalisability again arises and needs to be acknowledged. Expansion of the analysis into other sectors will clearly be required to gain a fuller picture of reporting practices in post-reform Libya.

Third, the current study did not examine Libyan banks' online disclosure practices. However, this is clearly an important topic for the future and further research could investigate the extent of such disclosures, not just in Libyan banks, but in the developing world as a whole.

Fourth, this study focused only on annual reports. Further research could examine bank disclosure through other media (e.g., prospectus, interim report, press coverage, journals, newspapers, government publications, Central Bank of Libya's reports, interviews with officials, seminars, etc.) and thus to provide a more comprehensive picture of disclosure practices amongst Libyan banks.

Fifth, the current study was conducted within the functionalist paradigm for the reasons set out in Chapter 5, and the research techniques employed reflected this. However, further empirical work that adopts more in-depth qualitative techniques, such as interviews, could obviously add to knowledge in the area and should be considered a priority for the future.

Sixth, the disclosures in Libyan banks' annual reports were analysed based on a disclosure index that included 126 items of financial information. Further research could obviously broaden the scope of the analysis by constructing an index that includes both financial and non-financial information items.

Seventh, the notion of internal consistency which was used in the current study to measure questionnaire response reliability compared participants' answers to specific items at the same point in time, measuring the degree of agreement therein (Almahmoud, 2000). To investigate the validity of the surveys, subjective judgment and opinions from non-experts and/or professionals were sought. However, this form of validity can be perceived as being inadequate when examining the validity of a measurement, possibly because of concerns about users' perceptions regarding their own employment of information (Dhaliwal, 1980). Although, these forms of reliability and validity checking have been widely adopted in previous studies (such as Abu-Nassar and Rutherford, 1995; Alrazeen, 1999; Almahmoud, 2000; Al-Hussaini, 2001; Bribesh, 2006; Hossain, 2008).

Eight, the period of time covered in the study coincided with the build-up to and the launch of the new Libyan Stock Market. While the findings provide important insights for both regulators of and investors in the market, there was not time to investigate whether disclosure behaviours (and perceptions thereof) have begun to change. Once again, though, further work in the area (in this case once a sufficiently long period of time has elapsed) would be insightful.

Ninth, given the time constraints involved, the selection of items for inclusion in the disclosure index was not tested on professionals and/or other groups as some researchers have done (Cooke, 1992; Hossain, et al. 1994; Al-Bastaki, 1997; Akhtaruddin, 2005; Barako, 2007). However, the index was constructed based on a thorough examination of prior literature in the area and applied carefully in a Libyan context, it is therefore believed that the index employed was suitable for the purposes of the research.

It is also useful to acknowledge that the significance of the results provided in this thesis has been judged solely in conventional statistical terms. However, in the broader social science literature a wider notion of significance has been suggested (see, e.g. Cohen et al., 1996; Kirk, 1996; Snyder and Lawson, 1993). One example from the present study where such a broad interpretation of this notion would clearly have relevance relates to the correlation coefficients presented in Table 8.14. In this case, "insignificant" coefficient values as high as .473 were recorded; however, such a value is clearly non-trivial and likely to be of interest in practice.

Finally, the study was conducted on a single nation. While the circumstances in Libya give rise to the importance of the study, this uniqueness obviously limits the extent of generalisability of the findings. For this reason, more work on North Africa as a whole and developing nations is needed, particularly to see if the recent global finance crisis has affected the actuality and the perceived nature of disclosures by firms in the banking sector of each nation. Given the pervasiveness of the crisis, work of this nature is arguably needed urgently across both the developed and developing world.

While it is recognised that this research has some limitations, it is nonetheless believed that the findings of the research study represent a significant contribution to knowledge. Being the first study of its kind in Libya, it is deliberately exploratory in nature, it has added to the growing literature on financial disclosure in northern Africa and developing countries in general. It offers a useful insight into the disclosure practices by Libyan banks and provides a starting point for future research that will be necessary to deal with on-going changes in the sector that are likely to reverberate for many years to come.

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Appendix 3

Appendix 3.1

Factors Relating to Economic Entity

1. Firm Size

Many studies in both developed and developing countries have revealed that firm size is strongly associated with the level of disclosure: in particular, large firms disclose more than smaller firms (e.g., Cerf, 1961; Buzby, 1972; Stanga, 1976; McNally et al., 1982; Chow and Wong-Boren, 1987; Wallace et al., 1994; and Alrazeen, 1999, etc.). The reasons suggested to this tendency include the following:

1. Larger firms are more complicated and have a wider ownership base than smaller firms, meaning that more information exists to be disclosed (Cooke 1991; Meek et al., 1995 and Leung et al., 2006)

2. Revealing more information permits large firms to attain new finances at lower cost (Cooke 1991; Meek et al. 1995 and Botosan, 1997). Large firms have the thrust to release more information because they might be inclined to go to the stock market for funding and must therefore reduce any information asymmetries that might make a launch difficult (Singhvi and Desai 1971).

3. Large firms have higher resources for collecting, analysing, and presenting extensive quantities of data at minimal cost. The cost of generating and disseminating certain types of information item is likely to be larger for a small firm than for a large firm (Singhvi and Desai 1971).

4. Larger firms have an enhanced capacity to release important information without exposure to a competitive disadvantage, because of their ability to restrict entrants to their market (Hossain et al., 1995).

2. Listing Status

Listing status has also been found to be a significant influence on the level of accounting disclosure. Several studies have indicated that the level of disclosure might vary between listed and unlisted firms (e.g., Buzby 1972; Choi 1973; Firth 1979; Cooke 1989; Cooke 1992; Wallace et al 1994). Clearly, this variation might be caused by listed firms' requirement to comply with certain disclosure regulations imposed by the stock market concerned. Another possible reason for this variation, however, is that listed firms may voluntarily raise their disclosure levels so as to make stock market-based funding more likely and less costly (Kahl and Belkaoui, 1981).

3. Industry Type

There are a number of reasons why the level of disclosure might vary in a practicable way across industries, for example; Sprouse (1967) pointed out that accounting policies and techniques might vary by industry, while Meek et al., (1995, p.559) suggested that "proprietary (i.e. competitive disadvantage and political) costs vary across industry. For example, because of the nature of their products and their research and development, chemical companies are likely to be more sensitive about disclosure to competitors and the public than companies in certain other industries". Industry type has been shown to be strongly connected with level of disclosure in previous studies (see Cooke 1989).

4. Profitability

Signalling theory suggests that if a firm is profitable it will disclose a relatively large amount of information to signal the credibility of its reported earnings to the market (Spence 1973), improve its reputation and avoids undervaluation of its shares (Inchausi, 1997). Singhvi and Desai (1971) found a positive relationship between these two measures and financial disclosure, and suggested that as the rate of return and earnings margins rise, managers will be motivated to disclose more information to support their compensation, to convince investors that the firm is profitable, ensure that their position is secured (Owsus-Ansah, 1998), praise itself (Singhvi and Desai, 1971) and keep its reputation and to avoid costly litigations (Skinner, 1994).

5. Age of Firm

Akhtaruddin (2005) indicated that firms with many years of experience are more likely to include substantial information in their annual reports in an effort to improve their reputation and standing in the capital market. Al-Shayeb (2003) indicated various reasons for expecting such a tendency, such as the fact that older firms are more likely to have a meaningful operational history to which might assist with predicting future performance, marketability of securities and financing opportunities, while Owusu-Ansah (1998, p.614-615) suggests three main reasons that may contribute to this assumption. (i) Younger firms may suffer competitive disadvantage if they disclose certain information items. (ii) The cost and the simplicity of gathering processing, and disseminating the required information might be a contributory factor. These costs are expected to be heavier for younger firms than for their older counterparts. (iii) Younger companies are more likely to lack a 'track record' to rely on for public disclosure.

6. Ownership Structure

Although privatisation programmes have dramatically changed the ownership structure of global industries in the last two decades, in many developing countries the government still owns a majority of the stocks. It is likely that companies in these regimes will have a relatively low level of motivation to disclose information beyond what is required by the regulations, because economic activity in such a country is less subject to market forces (Eng and Mark, 2001). It is possible that the companies in such a situation will operate primarily to achieve for the objectives of the government rather than any (minority) private the shareholders (Leung et al., 2006). The government will also be able to attain information from other resources and be more likely to gain easier access to different resources of funds than non-government companies (Eng and Mark, 2001).

7. Leverage

Companies which have higher levels of debt are seen to be more risky and to incur higher monitoring costs (Jensen and Meckling 1976). The disclosure of information reduces the need for monitoring and facilitates the creditors in assessing the firm's risk and cost of debt (Botosan 1997). Jensen and Meckling (1976) suggested that agency costs rise as leverage increases, therefore the management presents more voluntary information to decrease such cost of monitoring its performance, while Wallace et al. (1994) suggest that highly leveraged companies disclose more information in order to decrease the agency costs of debt.

8. Professional Qualifications of the Principal Accounting Officer of the Company (PQAO)

The main responsibility for preparing annual reports rests with the principal accounting officer of the firm. Professionally qualified accountants should undergo stringent professional training and examinations before they are admitted to membership (Ahmed and Nicholls, 1994). As a result, it appears reasonable to argue that both voluntary and mandatory disclosure levels might be higher in the presence of a PQAO as awareness of regulatory needs and the potential for high quality information to affect users' perceptions is increased.

9. Audit Firm Size

Larger audit firms might attempt to improve the perceived quality of the annual reports by having clients disclose more information (Wallace et al., 1994). In contrast small audit firms do not have the power to influence the disclosure practices of their clients. Rather, they try to meet the needs of their clients so as to keep them (Wallace and Naser, 1995). Furthermore, international audit firms have more influence on the level of financial disclosure than local audit firms because international audit firms are larger and have more expertise in auditing (Wallace et al., 1994).

Appendix 5

Appendix 5.1

Questionnaire on preparers' perceptions about financial disclosure in Libyan banks' annual reports

Dear Participant:

I am conducting research, under the supervision of Dr. Bruce Burton and Dr. Louise Crawford at the University of Dundee in the UK. The title of my PhD thesis is ***"Financial Disclosure in Developing Countries: Evidence from the Libyan Banking Sector"***. At this stage of my thesis I am concerned with collecting data from all Libyan commercial banks. Successful completion of this project should lead to insights and recommendations that are important for preparers, regulators and users of annual reports in Libyan banks. This, however, would not be possible without your contribution, and I would therefore be very grateful if you could spare a few minutes of your time to complete the enclosed questionnaire. I assure you that your response will be treated with complete confidentiality and used only for research purposes.

I would like to take this opportunity to thank you in advance for spending your valuable time in answering the questions in this survey, and for your opinions and your suggestions, which will be extremely useful in helping to achieve the research's aims.

Yours faithfully

Musa Kribat
PhD Student
School of Accounting & Finance
University of Dundee
United Kingdom

Part 1

General information:

The following part of the questionnaire is designed to obtain general information. Please respond by ticking (√) in the appropriate box.

1. Please indicate your main occupation

Chairman and general manager... ( )
Vice-chairman and deputy general manage.............................. ( )
Manager accounts department... ( )
Accountant.. ( )
Other, please specify.. ( )

2. Age

Less than 22 years old......................... ( )
Between 22 and 25 years old................. ( )
Between 26 and 35 years old................. ( )
Between 36 and 45 years old................. ( )
Over 45 years old............................. ( )

3. How long have you worked in your present profession?

Less than one year................................ ( )
One year to 5 years............................. ( )
5 years to 10 years.............................. ( )
10 years to 15 years............................ ( )
Over 15 years.................................... ( )

4. Are you professionally qualified in accountancy or finance?

Yes ( ) No ( )

5. What is your highest educational qualification?

Diploma.. ( )
Bachelors degree..................................... ( )
Masters degree....................................... ( )
Doctorate.. ( )
Other (please specify) ....

6. Please indicate your place of education for your highest degree

Libya.. ( )
Other Arab country................................ ( )
U.K.. ( )
U.S.A.. ( )
Other (please indicate) ....

Part 2

The following questions all relate to your perceptions about disclosure in Libyan banks' annual reports. The questions will only require you to indicate your view by ticking (√) in the appropriate box.

1. To what extent do you think that Libyan banks' annual reports are important for each of the following user groups?

(Note: 1 = not important at all; 5 = very important)

User Groups	1	2	3	4	5
Bank shareholders					
Management and board of directors					
Government organizations and institutions					
Central Bank officers					
Creditors					
Employees and labour unions					
Customers					
Newspapers and Magazines (the media)					
External auditors					
Tax authorities					
Academics and other researchers					

2. Using the scale below, please indicate how important you think that Libyan banks' annual reports are for each of the following purposes.

(Note: 1 = not important at all; 5 = very important)

Purposes	1	2	3	4	5
To provide information to potential future investors to assist them with future decisions					
To help existing investors in monitoring their investments					
To provide information to creditors to assist them with future decisions					
To provide information to creditors to assist them in monitoring their interests					
To provide information to managers to assist them in running their businesses					
To provide information to employees to assist them in protecting their interests					
To provide information to Libyan tax authorities					
To provide information to the Central Bank for monitoring and supervision purposes					
To provide information to academics and researchers to aid teaching and research					
To provide information about corporate governance standards					

3. How important do you think the following sections of Libyan banks' annual reports are for financial decision-making?

(Note: 1 = not important at all; 5 = very important)

Sections	1	2	3	4	5
Balance Sheet					
Income Statement					
Statement of Cash Flows					
Notes to the Financial Statements					
Statement of Retained Earnings					
Accounting Policies					
Directors' Report					
Auditor's Report					

4. How influential do you think each of the following parties is in terms of Libyan banks' disclosure practices and choice of accounting policies?

(Note: 1 = not influential at all; 5 = very influential)

Parties	1	2	3	4	5
External auditors					
Board of directors					
Manager of accounts department					
Bank accountants					
Central Bank officers					
Academics					

5. How influential do you think that each of the following factors is on disclosure Libyan banks' annual reports?

(Note: 1 = not influential at all; 5 = very influential)

Factors	1	2	3	4	5
Income tax law					
Commercial law					
Banking Act No. 1 (2005)					
Developments in international accounting practices					
Corporate competition					
Other (Please specify).................................					

6. How significant do you think the following problems are for users of Libyan banks' annual reports?

(Note: 1 = not significant at all; 5 = very significant)

Problems	1	2	3	4	5
Delay in publishing annual reports					
Lack of understandability of the information					
Lack of reliability of the information					
Lack of relevance of the information					
Lack of comparability of the information					
Lack of materiality of the information					
Lack of compliance with accounting standards					
Lack of access to annual reports					
Lack of time available					
Other (Please specify).............................					

7. How significant do you think the following problems are in terms of restricting the quantity of disclosure in Libyan banks' annual reports?

(Note: 1 = not significant at all; 5 = very significant)

Problems	1	2	3	4	5
Lack of knowledge of external users' needs					
Lack of professional or qualified accountants					
Weaknesses in accounting practices					
Fear of misuse of extra published information by competitors					
Lack of an enforcement mechanism of accounting rules by Libyan authorities.					
Expenses of information preparation and publication					
Lack of demand for information					
Other (Please specify).....................................					

8. How do you assess the degree of Libyan banks' compliance with existing Libyan disclosure requirements?

(Note: 1 = very poor; 5 = excellent)

1	2	3	4	5

9a. Please indicate your assessment of the following attributes of the financial disclosures in Libyan banks' annual reports?

(Note: 1 = very poor; 5 = excellent)

Attributes	1	2	3	4	5
Quantity of information					
Understandability of the information					
Relevance of the information					
Reliability of the information					
Comparability of the information					
Materiality of the information					

9b. Please indicate your assessment of the following attributes of the financial disclosures in Libyan banks' annual reports relative to other sectors?

(Note: 1 = very poor; 5 = excellent)

Attributes	1	2	3	4	5
Quantity of information					
Understandability of the information					
Relevance of the information					
Reliability of the information					
Comparability of the information					
Materiality of the information					

10. How important a role will the Libyan Stock Exchange play in the following areas regarding the financial disclosures in Libyan banks' annual reports?

(Note: 1 = not important at all; 5 = very important)

Roles	1	2	3	4	5
Improving the reliability of the information					
Improving the relevance of the information					
Improving the understandability of the information					
Improving the comparability of the information					
Improving the materiality of the information					
Ensuring Libyan banks comply with statutory requirements					
Encouraging Libyan banks to disclose more information and therefore raise funds more cheaply					
Protecting the interests of investors and other users by encouraging banks to disclose voluntary information.					
Ensuring Libyan banks publish their annual reports in timely fashion					
Other (Please specify)...............................					

11. Libya is currently undergoing a series of economic and market reforms. Please indicate the extent to which you agree with the following statements regarding the effect that these reforms will have on financial disclosure in Libyan banks' annual reports.

(Note: 1 = strongly disagree; 5 = strongly agree)

Statements	1	2	3	4	5
The quantity of the information will rise					
The reliability of the information will improve					
The relevance of the information will improve					
The understandability of the information will improve					
The comparability of the information will improve					
The materiality of the information will improve					
The extent of compliance with regulatory requirements will improve					

12. Please respond to the statements below regarding Libyan banks' annual reports.

(Note: 1 = strongly disagree; 5 = strongly agree)

Statements	1	2	3	4	5
The annual reports should be available publicly					
Financial disclosure practices in annual reports need to be improved					
The content of annual reports should be regulated and not left to the decision of the bank's manager					
The Central Bank of Libya should play a major role in regulating and observing the financial disclosures by banks					
The Central Bank of Libya should play a major role in monitoring the implementation of laws and regulations within the banking industry in Libya					
International Accounting Standards (IASs) should be applied to the banking sector by the Libyan authorities					
All the annual reports should be prepared using the same accounting standards					
All the annual reports should be presented using a standard format					
Libyan banks' external auditors should be independent of management influence					
The professional skills of financial statements' preparers need to be improved					

13. Please use the space below to make any comments about the financial disclosure in annual reports of Libyan banks.

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The researcher would like to take the opportunity to thanks you for filling in the questionnaire. Also if you would like to receive a summary of the research results and findings, please write down your name and contact details. Thanks again.

Name: ....

Address: ....

E-mail: ....

Phone Number: ....

Fax Number: ....

Questionnaire on preparers' perceptions about financial disclosure in Libyan banks' annual reports

عزيزي المشارك في الاستبيان

أنا اقوم في الوقت الحاضر بإجراء بحث أكاديمي تحت إشراف كل من د. بروس بورتن و د. لويز كروفورد في جامعة دندي في المملكة المتحدة. البحث بعنوان "الإفصاح المالي في الدول النامية: دليل من قطاع المصارف الليبية".
في هذه المرحلة من البحث أنا مهتم بتجميع البيانات من كل المصارف التجارية الليبية. إن اكتمال هدا البحث بنجاح سوف يقدم معرفة ثاقبة و توصيات تكون مهمة لكل من معدي الحسابات والمنظمين ومستخدمي التقارير المالية السنوية في المصارف الليبية على حدٍ سواء. وهذا لن يكون ممكناً بدون مشاركتكم وتفاعلكم و سوف أكون ممتناً جداً إذا تكرمتم وخصصتم جزءاً من وقتكم لتكملة الاستبيان المرفق. وأنا أؤكد لكم بأن ردودكم سوف تعامل بالسرية الكاملة ولن تستخدم إلا لأهداف البحث.
وفي الختام أود أن انتهز هذه الفرصة لأشكركم سلفاً لتخصيص جزء من وقتكم الثمين لإجابة أسئلة الاستبيان وأيضا لأرائكم و اقتراحاتكم التي سوف تكون في غاية الفائدة في المساعدة على تحقيق أهداف البحث.

وتقبلوا خالص تحياتي

الباحث

موسى محمد كريبات
طالب دكتوراه
مدرسة المحاسبة والتمويل
جامعة دندي
المملكة المتحدة(بريطانيا)

الجزء الأول

1. معلومات عامة:.

1.يرجى الإشارة إلى وضيفتكم الرئيسية الحالية في المصرف

المدير العام ....( )
نائب المدير العا م...( )
مدير إدارة (أو قسم) الحسابات...( )
محاسب...( )

2. العمر
1 . اقل من 22 سنة..( )
2 . مابين 22-25 سنة...( )
3. مابين 26-35 سنة...( )
4. مابين 36-45 سنة...( )
5. أكثر من 45 سنة...( )

3. ما المدة التي خدمتها في هذه المهنة
1. اقل من سنة...( )
2. من سنة إلى 5سنوات...( )
3. من 5 إلى 10 سنوات...( )
4. من 10 إلى 15 سنة...( )
5. أكثر من 45 سنة...( )

4. هل أنت مؤهل مهنيا في المحاسبة أو التمويل؟

نعم ( ) **لا ( )**

5 ما هو أعلى مؤهل تعليمي حصلت عليه
1. دبلوم متوسط...( )
2. بكالوريوس..( )
3. ماجستير...( )
4. دكتوراه...( )
5. مؤهلات أخرا (يرجى التحديد)..( )

6. يرجى تحديد المكان الذي تحصلت منه على هذا المؤهل
1. ليبيا...( )
2. دولة عربية أخرى..( )
3. المملكة المتحدة (بريطانيا) ....( )
4. الولايات المتحدة...( )
5. مكان أخر (يرجى التحديد)...( )

الجزء الثاني

الا سئلة التالية تتعلق بوجهات نظرك حول الإفصاح المالي في التقارير السنوية للمصارف الليبية. للإجابة على الأسئلة، المطلوب فقط وضع إشارة (√) في المربع المناسب معبراً عن رأيك.

1. لأي مدى تعتقد أن التقارير السنوية للمصارف الليبية مهمة لكل من الأطراف المستخدمة التالية.
(ملاحظة :1 = غير مهم أبدا ،5 = مهم جداً)

مجموعة المستخدمين	1	2	3	4	5
مساهمي المصرف					
الإدارة وأعضاء مجلس الإدارة					
الهيئات والمؤسسات الحكومية					
العاملين بمصرف ليبيا المركزي					
الدائنين					
الموظفين ونقابات العمال					
الزبائن					
الجرائد والمجلات					
المراجعون الخارجيين					
مصلحة الضرائب					
الأكاديميين و البحُاث					

2. باستخدام الجدول أدناه يرجى بيان مدى أهمية التقارير السنوية للمصارف الليبية لتحقيق كلا من الأهداف التالية وذالك حسب رأيك
(ملاحظة :1 = غير مهم أبدا ،5 = مهم جداً)

الأهداف	1	2	3	4	5
تزويد المستثمرين المتوقعين بالمعلومات لمساعدتهم في قراراتهم المستقبلية					
تزويد المستثمرين الحاليين بالمعلومات لمساعدتهم في مراقبة استثماراتهم					
تزويد الدائنين بالمعلومات لمساعدتهم في قراراتهم المستقبلية					
تزويد الدائنين بالمعلومات لمساعدتهم في مراقبة مصالحهم					
تزويد المدراء بالمعلومات لمساعدتهم في إدارة أعمالهم					
تزويد الموظفين بالمعلومات لمساعدتهم في حماية مصالحهم					
تقديم المعلومات لمصلحة الضرائب					
تقديم المعلومات لمصرف ليبيا المركزي لأهداف الرقابة والإشراف					
تزويد الأكاديميين و البُحاث بالمعلومات لإعانتهم في عملية التدريس والبحث					
تزويد المعلومات حول معايير الحكم المؤسسي					

3.حسب اعتقادك، ما مدى أهمية المعلومات المعطاة في كل قسم من أقسام التقرير السنوي للمصارف الليبية لعملية اتخاذ القرارات المالية

(ملاحظة :1 = غير مهم أبدا ،5 = مهم جداً)

الأقسام	1	2	3	4	5
الميزانية					
قائمة الدخل					
قائمة التدفقات النقدية					
الإيضاحات حول البيانات المالية					
قائمة الأرباح المحجوزة					
السياسات المحاسبية					
تقرير مجلس الإدارة					
تقرير مراجع الحسابات					

4. حسب اعتقادك، ما مدى تأثير كل من الأطراف التالية فيما يتعلق بممارسة الإفصاح واختيار السياسات المحاسبية

(ملاحظة :1 = لا يوجد تأثير ،5 = مؤثر جدا)

الأطراف	1	2	3	4	5
المراجعين الخارجيين					
أعضاء مجلس الإدارة					
مدير أدارة (أو قسم) الحسابات					
محاسبي المصرف					
موظفي مصرف ليبيا المركزي					
الأكاديميين					
أطراف أخرى (يرجى التحديد)............					

5. حسب اعتقادك، ما مدى تأثير كل من العوامل التالية على ممارسة الإفصاح في التقارير السنوية للمصارف

(ملاحظة :1 = لا يوجد تأثير ،5 = مؤثر جدا)

العوامل	1	2	3	4	5
قانون ضرائب الدخل					
القانون التجاري					
قانون المصارف رقم 1 لسنة 2005					
التطورات في ممارسة المحاسبة الدولية					
المنافسة المؤسساتية					
عوامل أخرى (يرجى التحديد)............					

6- حسب اعتقادك، ما مدى أهمية المشاكل التالية في الحد من الأستخدام الأمثل للتقارير السنوية للمصارف الليبية
(ملاحظة :1 = غير مهم أبدا ،5 = مهم جداً)

المشاكل	1	2	3	4	5
التأخير في نشر التقارير السنوية					
صعوبة فهم المعلومات الواردة بالتقارير السنوية					
افتقار المعلومات المالية الواردة بالتقارير السنوية للموثوقية					
ضعف العلاقة بين التقارير السنوية و المسالة التي يتخذ في صددها القرار					
ضعف قابلية المعلومات المالية الواردة بالتقارير السنوية للمقارنة					
قلة الأهمية النسبية للمعلومات الواردة بالتقارير السنوية					
قلة مستوى التزام المصارف بالمعايير المحاسبية					
صعوبة الوصول للتقارير السنوية					
قلة الوقت المتوفر لذلك					
مشاكل أخرى (يرجى التحديد)......................					

7 . حسب اعتقادك، ما مدى أهمية المشاكل التالية من حيث تحديد كمية الإفصاح في التقارير السنوية للمصارف الليبية
(ملاحظة :1 = غير مهم أبدا ،5 = مهم جداً)

المشاكل	1	2	3	4	5
قلة المعرفة باحتياجات المستخدمين الخارجيين					
الافتقار للمحاسبيين المؤهلين و المهنيين					
الافتقار للمعايير والمبادئ المحاسبية المقبولة والمتعارف عليها					
غياب إطار تنظيمي متقدم					
الخوف من إساءة استخدام المعلومات الإضافية المنشورة بواسطة المنافسين					
عدم وجود آلية لتنفيذ قوانيين المحاسبة من قبل السلطات الليبية					
نفقات إعداد ونشر المعلومات					
قلة الطلب على المعلومات					
مشاكل أخرى (يرجى التحديد).........................					

8 . كيف تقيم درجة التزام المصارف الليبية بمتطلبات الإفصاح الموجودة في الوقت الحالي
(ملاحظة : 1 = سيئ جداً ، 5 = ممتاز)

1	2	3	4	5

9.
أ. يرجى تحديد مدى تقييمك للمواصفات التالية المتعلقة بالإفصاح المالي في التقارير السنوية للمصارف الليبية
(ملاحظة : 1 = سيئ جداً، 5 = ممتاز)

المواصفات	1	2	3	4	5
كمية المعلومات المفصح عنها					
قابلية المعلومات للفهم					
علاقة المعلومات بمسألة اتخاذ القرار					
موثوقية المعلومات المفصح عنها					
قابلية المعلومات المفصح عنها للمقارنة					
الأهمية النسبية للمعلومات المفصح عنها					

ب. يرجى تحديد مدى تقييمك للمواصفات التالية المتعلقة بالإفصاح المالي في التقارير السنوية للمصارف الليبية مقارنة بالقطاعات الأخرى
(ملاحظة : 1 = سيئ جداً، 5 = ممتاز)

المواصفات	1	2	3	4	5
كمية المعلومات المفصح عنها					
قابلية المعلومات للفهم					
علاقة المعلومات بمسألة اتخاذ القرار					
موثوقية المعلومات المفصح عنها					
قابلية المعلومات المفصح عنها للمقارنة					
الأهمية النسبية للمعلومات المفصح عنها					

10. ما مدى أهمية الدور الذي سوف يلعبه سوق الأوراق المالية في كل من المجالات التالية المتعلقة بممارسة الإفصاح المالي في التقارير السنوية للمصارف الليبية
(ملاحظة :1 = غير مهم أبدا ،5 = مهم جداً)

الأدوار	1	2	3	4	5
تحسين موثوقية المعلومات المالية					
تحسين علاقة المعلومات المالية بمسالة اتخاذ القرار					
تحسين قابلية المعلومات المالية للفهم					
تحسين قابلية المعلومات المالية للمقارنة					
تحسين الأهمية النسبية للمعلومات المالية					
ضمان التزام المصارف الليبية بالمتطلبات القانونية					
تشجيع المصارف الليبية بالكشف عن مزيد من المعلومات وبالتالي جمع الأموال بأقل تكلفة					
حماية مصالح المستثمرين والمستخدمين الآخرين عن طريق تشجيع المصارف على إفشاء المعلومات بشكل طوعي					
ضمان إصدار المصارف الليبية تقاريرها السنوية في الوقت المناسب					
ادوار أخرى (يرجى التحديد)...........................					

11- تخضع ليبيا في الوقت الحالي إلى سلسلة من الإصلاحات الاقتصادية. يرجى الإشارة إلى مدى اتفاقكم مع البيانات التالية بخصوص تأثير هذه الإصلاحات على الإفصاح المالي في التقارير السنوية للمصارف الليبية

(ملاحظة: 1 = غير موافق بتاتا ، 5 = موافق بشدة)

البيانات	1	2	3	4	5
كمية المعلومات المفصح عنها سوف تزداد					
قابلية المعلومات المفصح عنها للفهم سوف تتحسن					
علاقة المعلومات بمسألة اتخاذ القرار سوف تتحسن					
موثوقية المعلومات المفصح عنها سوف تتحسن					
قابلية المعلومات المفصح عنها للمقارنة سوف تتحسن					
الأهمية النسبية للمعلومات المفصح عنها سوف تتحسن					
مدى الالتزام بالمتطلبات القانونية للإفصاح سوف تتحسن					

12. الرجاء الرد على البيانات الواردة أدناه بخصوص التقارير السنوية للمصارف الليبية

(ملاحظة: 1 = غير موافق بتاتا ، 5 = موافق بشدة)

البيانات	1	2	3	4	5
التقارير السنوية ينبغي أن تكون متاحة للعموم					
ممارسة الإفصاح المالي في التقارير السنوية يحتاج إلى تحسين					
محتوى التقارير السنوية ينبغي تنظيمه وان لا تترك لقرار مدير المصرف					
مصرف ليبيا المركزي ينبغي أن يلعب دورا رئيسيا في تنظيم و مراقبة الإفصاح المالي في المصارف					
مصرف ليبيا المركزي ينبغي أن يلعب دورا رئيسيا في مراقبة تنفيذ القوانين والأنظمة ضمن القطاع المصرفي في ليبيا					
معايير المحاسبة الدولية ينبغي أن تطبق على القطاع المصرفي من قبل السلطات الليبية					
جميع التقارير السنوية ينبغي أن تعد باستخدام نفس المعايير المحاسبية					
كل التقارير السنوية ينبغي أن تقدم باستخدام شكل موحد					
المراجعون الخارجيين للبنوك الليبية ينبغي أن يكونوا مستقلين عن تأثير الإدارة					
المهارات المهنية لمعدي القوائم المالية بحاجة إلى تحسين					

13. يرجي استخدام الحيز ادناه لإبداء أي تعليقات عن الإفصاح المالي في التقارير السنوية للمصارف الليبية
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في نهاية الاستبيان أود أن انتهز هده الفرصة لأعبر لكم عن شكري و تقديري للجهد الذي بذلتموه لملء هذا الاستبيان. و من يرغب منكم في استلام ملخص من نتائج هذا البحث الرجاء كتابة الاسم وبقية المعلومات أدناه.

الاسم:..
العنوان:..
عنوان البريد الالكتروني:..
رقم **الهاتف:**..
رقم **الفاكس:**..

Appendix 5.2

Questionnaire on users' perceptions about financial disclosure in Libyan banks' annual reports

Dear Participant:

I am conducting research, under the supervision of Dr. Bruce Burton and Dr. Louise Crawford at the University of Dundee in the UK. The title of my PhD thesis is ***"Financial Disclosure in Developing Countries: Evidence from the Libyan Banking Sector".*** At this stage of my thesis I am concerned with collecting data from all Libyan commercial banks. Successful completion of this project should lead to insights and recommendations that are important for preparers, regulators and users of annual reports in Libyan banks. This, however, would not be possible without your contribution, and I would therefore be very grateful if you could spare a few minutes of your time to complete the enclosed questionnaire. I assure you that your responses will be treated with complete confidentiality and used only for research purposes.

Finally, I would like to take this opportunity to thank you in advance for spending your valuable time in answering the questions in this survey, and for your opinions and your suggestions, which will be extremely useful in helping to achieve the research's aims.

Yours faithfully

Musa Kribat
PhD Student
School of Accounting & Finance
University of Dundee
United Kingdom

Part 1

General information:

The following part of the questionnaire is designed to obtain general information. Please respond by ticking (√) in the appropriate box.

1. Please indicate your main occupation

Individual investor.. ( )
Institutional investor.. ( )
Commercial Bank loan and investment officer....................... ( )
Central Bank officer.. ( )
Tax officer.............. .... ( )
External Auditor.. ( )
Academic staff.. ( )
Other, please specify... ( )

2. Age

Less than 22 years old.......................... ( )
Between 22 and 25 years old.................. ( )
Between 26 and 35 years old.................. ( )
Between 36 and 45 years old.................. ( )
Over 45 years old................................. ( )

3. How long have you worked in your present profession?

Less than one year.............................. ( )
One year to 5 years............................. ( )
5 years to 10 years.............................. ( )
10 years to 15 years............................ ( )
Over 15 years.................................... ( )

4. Are you professionally qualified in accountancy or finance?

Yes ( ) No ( )

5. What is your highest educational qualification?

Diploma.. ( )
Bachelors degree..................................... ( )
Masters degree....................................... ( )
Doctorate.. ( )
Other (please specify) ....

6. Please indicate your place of education for your highest degree

Libya.. ( )
Other Arab country.................................. ( )
U.K... ( )
U.S.A.. ( )
Other (please indicate) ....

Part 2

The following questions all relate to your perceptions about disclosure in Libyan banks' annual reports. The questions will only require you to indicate your view by ticking (√) in the appropriate box.

1. How often do you use annual reports when making financial decisions about a bank?

Never..	( )
Seldom (occasionally)..	( )
Sometimes...	( )
Usually...	( )
Always..	( )

2. Using the scale below, please indicate how important you think that Libyan banks' annual reports are for each of the following purposes.

(Note: 1 = not important; 5 = very important)

Purposes	1	2	3	4	5
To provide information to investors to assist them with future decisions					
To help investors in monitoring their existing investments					
To provide information to creditors to assist them with future decisions					
To provide information to creditors to assist them in monitoring their interests					
To provide information to managers to assist them in running their businesses					
To provide information to employees to assist them in protecting their interests					
To provide information to Libyan tax authorities					
To provide information to the Central Bank for monitoring and supervision purposes.					
To provide information to academics and researchers to aid teaching and research.					
To provide information about corporate governance standards.					

3. How important are the following potential sources of information regarding Libyan banks?

(Note: 1 = not important at all; 5 = very important)

Sources	1	2	3	4	5
Advice of friends and relatives					
Communication with management of bank					
Annual reports					
Specialist's advice or advisory services					
Newspapers and magazines					
Other (please specify)…………………					

4a. Please indicate your assessment of the following attributes of the financial disclosures in Libyan banks' annual reports

(Note: 1 = very poor; 5 = excellent)

Attributes	1	2	3	4	5
Quantity of the information					
Understandability of the information					
Relevance of the information					
Reliability of the information					
Comparability of the information					
Materiality of the information					

4b. Please indicate your assessment of the following attributes of the financial disclosures in Libyan banks' annual reports relative to other sectors?

(Note: 1 = very poor; 5 = excellent)

Attributes	1	2	3	4	5
Quantity of the information					
Understandability of the information					
Relevance of the information					
Reliability of the information					
Comparability of the information					
Materiality of the information					

5. How important are the following criteria to you in terms of the financial information in Libyan banks' annual reports?

(Note: 1 = not important at all; 5 = very important)

Criteria	1	2	3	4	5
Relevance of the information					
Reliability of the information					
Understandability of the information					
Comparability of the information					
Materiality of the information					

6. How significant do you find the following problems to be when using Libyan banks' annual reports?

(Note: 1 = not significant at all; 5 = very significant)

Problems	1	2	3	4	5
Delay in publishing annual reports					
Lack of understandability of the information					
Lack of reliability of the information					
Lack of relevance of the information					
Lack of comparability of the information					
Lack of materiality of the information					
Lack of compliance with accounting standards					
Lack of access to annual reports					
Lack of time available					
Other (Please specify)............................					

7. How important are the following sections of annual reports in your financial decision making regarding Libyan banks?

(Note: 1 = not important at all; 5 = very important)

Sections	1	2	3	4	5
Balance Sheet					
Income Statement					
Statement of Cash Flows					
Notes to the Financial Statements					
Statement of Retained Earnings					
Accounting Policies					
Directors' Report					
Auditor's Report					

8. How understandable is the information in the following sections of Libyan banks' annual reports?

(Note: 1 = not understood at all; 5 = very well understood)

Sections	1	2	3	4	5
Balance Sheet					
Income Statement					
Statement of Cash Flows					
Notes to the Financial Statements					
Statement of Retained Earnings					
Accounting Policies					
Directors' Report					
Auditor's Report					

9. How reliable is the information in the following sections of Libyan banks' annual reports?

(Note: 1 = not reliable at all; 5 = very reliable)

Sections	1	2	3	4	5
Balance Sheet					
Income Statement					
Statement of Cash Flows					
Notes to the Financial Statements					
Statement of Retained Earnings					
Accounting Policies					
Directors' Report					
Auditor's Report					

10. How relevant is the information in the following sections of Libyan banks' annual reports?

(Note: 1 = not relevant at all; 5 = very relevant)

Sections	1	2	3	4	5
Balance Sheet					
Income Statement					
Statement of Cash Flows					
Notes to the Financial Statements					
Statement of Retained Earnings					
Accounting Policies					
Directors' Report					
Auditor's Report					

11. How comparable is the information in the following sections of Libyan banks' annual reports?

(Note: 1 = not comparable at all; 5 = very comparable)

Sections	1	2	3	4	5
Balance Sheet					
Income Statement					
Statement of Cash Flows					
Notes to the Financial Statements					
Statement of Retained Earnings					
Accounting Policies					
Directors' Report					
Auditor's Report					

12. How material is the information in the following sections of Libyan banks' annual reports?

(Note: 1 = not material at all; 5 = very material)

Sections	1	2	3	4	5
Balance Sheet					
Income Statement					
Statement of Cash Flows					
Notes to the financial statements					
Statement of Retained Earnings					
Accounting Policies					
Directors' Report					
Auditor's Report					

13. How do you assess the degree of Libyan banks' compliance with existing Libyan disclosure requirements?

(Note: 1 = very poor; 5 = excellent)

1	2	3	4	5

14. How important a role will the Libyan Stock Exchange play in each of the following areas regarding the financial disclosures in Libyan banks' annual reports?

(Note: 1 = not important at all; 5 = very important)

Roles	1	2	3	4	5
Improving the reliability of the information					
Improving the relevance of the information					
Improving the understandability of the information					
Improving the comparability of the information					
Improving the materiality of the information					
Ensuring that Libyan banks comply with statutory requirements					
Encouraging Libyan banks to disclose more information and therefore raise funds more cheaply					
Protecting the interests of investors and other users by encouraging banks to disclose voluntary information.					
Ensuring that Libyan banks publish their annual reports in timely fashion					
Other (Please specify).....................................					

15. Libya is currently undergoing a series of economic and market reforms. Please indicate the extent to which you agree with the following statements regarding the effect that these reforms will have on financial disclosure in Libyan banks' annual reports.

(Note: 1 = strongly disagree; 5 = strongly agree)

Statements	1	2	3	4	5
The quantity of information will rise					
The reliability of the information will improve					
The relevance of the information will improve					
The understandability of the information will improve					
The comparability of the information will improve					
The materiality of the information will improve					
The extent of compliance with regulatory requirements will improve					

16. Please respond to the statements below regarding Libyan banks' annual reports.

(Note: 1 = strongly disagree; 5 = strongly agree)

Statements	1	2	3	4	5
The annual reports should be publicly available					
Financial disclosure practices in annual reports need to be improved					
The content of annual reports should be regulated and not left to the decision of the bank's manager					
The Central Bank of Libya should play a major role in regulating and observing the financial disclosures by banks					
The Central Bank of Libya should play a major role in monitoring the implementation of laws and regulations within the banking industry in Libya					
International Accounting Standards (IASs) should be applied to the banking sector by the Libyan authorities					
All the annual reports should be prepared using the same accounting standards					
All the annual reports should be presented using a standard format					
Libyan banks' external auditors should be independent of management influence					
The professional skills of financial statements' preparers need to be enhanced					

17. Please use the space below to make any comments about the financial disclosure in annual reports of Libyan banks.

....
....
....
....
....
....

The researcher would like to take the opportunity to thanks you for filling in the questionnaire. Also, if you would like to receive a summary of the research results and findings, please write down your name and contact details. Thank you.

Name: ....
Address: ....
E-mail: ....
Phone Number: ....
Fax Number: ....

Questionnaire on users' perceptions about financial disclosure in Libyan banks' annual reports

عزيزي المشارك في الاستبيان

أنا أقوم في الوقت الحاضر بإجراء بحث أكاديمي تحت إشراف كل من د. بروس بورتن و د. لويز كروفورد في جامعة دندي في المملكة المتحدة. البحث بعنوان "الإفصاح المالي في الدول النامية: دليل من قطاع المصارف الليبية".
في هذه المرحلة من البحث أنا مهتم بتجميع البيانات من كل المصارف التجارية الليبية. إن اكتمال هذا البحث بنجاح سوف يقدم معرفة ثاقبة و توصيات تكون مهمة لكل من معدي الحسابات والمنظمين ومستخدمي التقارير المالية السنوية في المصارف الليبية على حدٍ سواء. وهذا لن يكون ممكناً بدون مشاركتكم وتفاعلكم و سوف أكون ممتناً جداً إذا تكرمتم وخصصتم جزءاً من وقتكم لتكملة الاستبيان المرفق. وأنا أؤكد لكم بأن ردودكم سوف تعامل بالسرية الكاملة ولن تستخدم إلا لأهداف البحث.
وفي الختام أود أن انتهز هذه الفرصة لأشكركم سلفاً لتخصيص جزء من وقتكم الثمين لإجابة أسئلة الاستبيان وأيضا لآرائكم و اقتراحاتكم التي سوف تكون في غاية الفائدة في المساعدة على تحقيق أهداف البحث.

وتقبلوا خالص تحياتي

الباحث

موسى محمد كريبات
طالب دكتوراه
مدرسة المحاسبة والتمويل
جامعة دندي
المملكة المتحدة (بريطانيا)

الجز الأول

1. معلومات عامة:.

1. يرجي الإشارة إلى أي من الأدوار التالية الذي تقوم به عند اتخاذ قرار بشأن المصرف

1. مستثمر فردي	( )
2. مستثمر مؤسسي	( )
3. موظف بقسم الائتمان والقروض بالمصرف	( )
4. موظف بمصرف ليبيا المركزي	( )
5. موظف بمصلحة الضرائب	( )
6. مراجع خارجي	( )
7. أكاديمي	( )
8. غير دالك (يرجى التحديد)...................................	( )

2. العمر

1 . اقل من 22 سنة...( )
2 . مابين 22-25 سنة...( )
3. مابين 26-35 سنة..( )
4. مابين 36-45 سنة..( )
5. أكثر من 45 سنة...( )

3. كم المدة التي خدمتها في هذه المهنة

1. اقل من سنة...( )
2. من سنة إلى 5سنوات...( )
3. من 5 إلى 10 سنوات..( )
4. من 10 إلى 15 سنة..( )
5. أكثر من15 سنة...( )

4. هل أنت مؤهل مهنيا في المحاسبة أو التمويل؟

نعم ( ) **لا** ( )

5. ما هو أعلى مؤهل تعليمي حصلت عليه

1. دبلوم متوسط..( )
2. بكالوريوس..( )
3. ماجستير...( )
4. دكتوراه..( )
5. مؤهلات أخرا (يرجى التحديد)..( )
( )

6. يرجى تحديد المكان الذي تحصلت منه على هذا المؤهل

1. ليبيا...( )
2. دولة عربية أخرى..( )
3. المملكة المتحدة (بريطانيا)..( )
4. الولايات المتحدة...( )
5. مكان أخر (يرجى التحديد)..( )
( )

2. الجزء الثاني

الأسئلة التالية تتعلق بوجهات نظرك حول الإفصاح المالي في التقارير السنوية للمصارف الليبية.
للإجابة على الأسئلة المطلوب فقط وضع إشارة (√) في المربع المناسب معبراً عن رأيك

1. ما مدى استخدامك، في الغالب، التقارير السنوية عند اتخاذك ا القرارات المالية حول المصرف

1. لا استخدم التقارير السنوية إطلاقا	
2. نادر آ ما استخدم التقارير المالية	
3. أحيانا ما استخدم التقارير السنوية	
4. عادة ما استخدم التقارير السنوية	
5. دائما ما استخدم التقارير السنوية	

2. باستخدام الجدول أدناه يرجى بيان مدى أهمية التقارير السنوية للمصارف الليبية لتحقيق كل من الأهداف التالية و ذلك حسب رأيك (ملاحظة :1 = غير مهم أبدا،5 = مهم جداً)

الأهداف	1	2	3	4	5
تزويد المستثمرين المتوقعين بالمعلومات لمساعدتهم في قراراتهم المستقبلية					
تزويد المستثمرين الحاليين بالمعلومات لمساعدتهم في مراقبة استثماراتهم					
تزويد الدائنين بالمعلومات لمساعدتهم في قراراتهم المستقبلية					
تزويد الدائنين بالمعلومات لمساعدتهم في مراقبة مصالحهم					
تزويد المدراء بالمعلومات لمساعدتهم في إدارة أعمالهم					
تزويد الموظفين بالمعلومات لمساعدتهم في حماية مصالحهم					
تقديم المعلومات لمصلحة الضرائب					
تقديم المعلومات لمصرف ليبيا المركزي لأهداف الرقابة والإشراف					
تزويد الأكاديميين و البُحاث بالمعلومات لإعانتهم في عملية التدريس والبحث					
تزويد المعلومات حول معايير الحكم المؤسسي					

3. ما مدى أهمية المصادر المحتملة التالية للمعلومات المالية المتعلقة بالمصارف (ملاحظة:1 = غير مهم أبدا،5 = مهم جداً)

المصادر	1	2	3	4	5
1. نصائح الأصدقاء و الأقارب					
2. الاتصال المباشر بإدارة المصرف					
3. التقارير السنوية للمصارف					
4. نصائح المختصين أو الخدمات الاستشارية					
5. الجرائد والمجلات					
6. مصادر أخرى (يرجى التحديد)................					

4.

أ- **يرجى تحديد مدى تقييمك للمواصفات التالية المتعلقة بالإفصاح المالي في التقارير السنوية للمصارف الليبية**

. **(ملاحظة : 1 = سيئ جداً، 5 = ممتاز)**

المواصفات	1	2	3	4	5
كمية المعلومات المفصح عنها					
قابلية المعلومات للفهم					
علاقة المعلومات بمسالة اتخاذ القرار					
موثوقية المعلومات المفصح عنها					
قابلية المعلومات المفصح عنها للمقارنة					
الأهمية النسبية للمعلومات المفصح عنها					

ب- **يرجى تحديد مدى تقييمك للمواصفات التالية المتعلقة بالإفصاح المالي في التقارير السنوية للمصارف الليبية مقارنة بالقطاعات الأخرى**

(ملاحظة: 1 = سيئ جداً، 5 = ممتاز)

المواصفات	1	2	3	4	5
كمية المعلومات المفصح عنها					
قابلية المعلومات للفهم					
علاقة المعلومات بمسالة اتخاذ القرار					
موثوقية المعلومات المفصح عنها					
قابلية المعلومات المفصح عنها للمقارنة					
الأهمية النسبية للمعلومات المفصح عنها					

5.حسب اعتقادك، ما مدى أهمية المعايير التالية فيما يتعلق بالمعلومات المالية في التقارير السنوية للمصارف

(ملاحظة: 1 = غير مهم أبدا، 5 = مهم جداً)

المعايير	1	2	3	4	5
علاقة المعلومات المالية بمسالة اتخاذ القرار					
موثوقية المعلومات المالية					
قابلية المعلومات المالية للفهم					
قابلية المعلومات المالية للمقارنة					
الأهمية النسبية للمعلومات المالية					

6. حسب اعتقادك، ما مدى أهمية المشاكل التالية في الحد من الأستخدام الأمثل للتقارير السنوية للمصارف الليبية
(ملاحظة: 1 =غير مهم ابدآ، 5 = مهم جداً)

المشاكل	1	2	3	4	5
التأخير في نشر التقارير السنوية					
صعوبة فهم المعلومات الواردة بالتقارير السنوية					
افتقار المعلومات المالية الواردة بالتقارير السنوية للموثوقية					
ضعف العلاقة بين التقارير السنوية و المسالة التي يتخذ في صددها القرار					
ضعف قابلية المعلومات المالية الواردة بالتقارير السنوية للمقارنة					
قلة الأهمية النسبية للمعلومات الواردة بالتقارير السنوية					
قلة مستوى التزام المصارف بالمعايير المحاسبية					
صعوبة الوصول للتقارير السنوية					
قلة الوقت المتوفر لذلك					
مشاكل أخرى (يرجى التحديد)......................					

7. حسب اعتقادك، ما مدى أهمية المعلومات المعطاة في كل فسم من أقسام التقرير السنوي للمصارف الليبية لعملية اتخاذ القرارات المالية
(ملاحظة: 1 =غير مهم ابدآ، 5 = مهم جداً)

الأقسام	1	2	3	4	5
الميزانية					
قائمة الدخل					
قائمة التدفقات النقدية					
الإيضاحات حول البيانات المالية					
قائمة الأرباح المحجوزة					
السياسات المحاسبية					
تقرير مجلس الإدارة					
تقرير مراجع الحسابات					

8. حسب اعتقادك، ما مدى قابلية المعلومات المالية المعطاة في كل قسم من أقسام التقرير السنوي للمصارف الليبية للفهم.
(ملاحظة : 1 = صعب جدا فهمها، 5 = سهل جدا فهمها)

الأقسام	1	2	3	4	5
الميزانية					
قائمة الدخل					
قائمة التدفقات النقدية					
الإيضاحات حول البيانات المالية					
قائمة الأرباح المحجوزة					
السياسات المحاسبية					
تقرير مجلس الإدارة					
تقرير مراجع الحسابات					

9. حسب اعتقادك، ما مدى مصداقية المعلومات المالية الواردة في كل قسم من أقسام التقارير السنوية للمصارف الليبية
(ملاحظة : 1 = غير موثوق منها بتاتا ، 5 = موثوق منها جدا)

الأقسام	1	2	3	4	5
الميزانية					
قائمة الدخل					
قائمة التدفقات النقدية					
الإيضاحات حول البيانات المالية					
قائمة الأرباح المحجوزة					
السياسات المحاسبية					
تقرير مجلس الإدارة					
تقرير مراجع الحسابات					

10. حسب اعتقادك، ما مدى علاقة المعلومات المالية الواردة في كل قسم من أقسام التقارير السنوية للمصارف الليبية بالمسألة التي بصددها يتخذ القرار
(ملاحظة : 1 = ليس لها علاقة بتاتا ، 5 = توجد علاقة قوية)

الأقسام	1	2	3	4	5
الميزانية					
قائمة الدخل					
قائمة التدفقات النقدية					
الإيضاحات حول البيانات المالية					
قائمة الأرباح المحجوزة					
السياسات المحاسبية					
تقرير مجلس الإدارة					
تقرير مراجع الحسابات					

11. حسب اعتقادك، ما مدى قابلية المعلومات المالية المعطاة في كل قسم من أقسام التقرير السنوي للمصارف الليبية للمقارنة. (ملاحظة : 1 = غير قابلة للمقارنة بتاتا ، 5 = قابلة جدا للمقارنة)

الأقسام	1	2	3	4	5
الميزانية					
قائمة الدخل					
قائمة التدفقات النقدية					
الإيضاحات حول البيانات المالية					
قائمة الأرباح المحجوزة					
السياسات المحاسبية					
تقرير مجلس الإدارة					
تقرير مراجع الحسابات					

1. **حسب اعتقادك، ما مدى الأهمية النسبية للمعلومات المالية المعطاة في كل قسم من أقسام التقرير السنوي للمصارف الليبية**

(ملاحظة : 1 = ليس لها أهمية نسبية بتاتا ، 5 = لها أهمية نسبية عالية).

الأقسام	1	2	3	4	5
الميزانية					
قائمة الدخل					
قائمة التدفقات النقدية					
الإيضاحات حول البيانات المالية					
قائمة الأرباح المحجوزة					
السياسات المحاسبية					
تقرير مجلس الإدارة					
تقرير مراجع الحسابات					

13. **كيف تقيم درجة التزام المصارف الليبية بمتطلبات الإفصاح الموجودة في الوقت الحالي**

(ملاحظة: 1 = سيئ جداً، 5 = ممتاز)

1	2	3	4	5

14. **حسب اعتقادك، ما مدى أهمية الدور الذي سوف يلعبه سوق الأوراق المالية في كل من المجالات التالية المتعلقة بممارسة الإفصاح المالي في التقارير السنوية للمصارف الليبية**

(ملاحظة: 1 = غير مهم أبدا ، 5 = مهم جدا)

الأدوار	1	2	3	4	5
تحسين موثوقية المعلومات المالية					
تحسين علاقة المعلومات المالية بمسألة اتخاذ القرار					
تحسين قابلية المعلومات المالية للفهم					
تحسين قابلية المعلومات المالية للمقارنة					
تحسين الأهمية النسبية للمعلومات المالية					
ضمان التزام المصارف الليبية بالمتطلبات القانونية					
تشجيع المصارف الليبية بالكشف عن مزيد من المعلومات وبالتالي جمع الأموال بأقل تكلفة					
حماية مصالح المستثمرين والمستخدمين الآخرين عن طريق تشجيع المصارف على إفشاء المعلومات بشكل طوعي					.
ضمان إصدار المصارف الليبية تقاريرها السنوية في الوقت المناسب					
ادوار أخرى (يرجى التحديد).........................					

15- تخضع ليبيا في الوقت الحالي إلى سلسلة من الإصلاحات الاقتصادية. يرجى الإشارة إلى مدى اتفاقكم مع البيانات التالية بخصوص تأثير هذه الإصلاحات على الإفصاح المالي في التقارير السنوية للمصارف الليبية (ملاحظة: 1= غير موافق بتاتا ، 5 = موافق بشدة)

البيانات	1	2	3	4	5
كمية المعلومات المفصح عنها سوف تزداد					
قابلية المعلومات المفصح عنها للفهم سوف تتحسن					
علاقة المعلومات بمسألة اتخاذ القرار سوف تتحسن					
موثوقية المعلومات المفصح عنها سوف تتحسن					
قابلية المعلومات المفصح عنها للمقارنة سوف تتحسن					
الأهمية النسبية للمعلومات المفصح عنها سوف تتحسن					
مدى الالتزام بالمتطلبات القانونية للإفصاح سوف تتحسن					

16. يرجى الرد على البيانات الواردة أدناه بخصوص التقارير السنوية للمصارف الليبية (ملاحظة: 1 = غير موافق بتاتا ، 5 = موافق بشدة)

البيانات	1	2	3	4	5
التقارير السنوية ينبغي أن تكون متاحة للعموم					
ممارسة الإفصاح المالي في التقارير السنوية يحتاج إلى تحسين					
محتوى التقارير السنوية ينبغي تنظيمه وان لا تترك لقرار مدير المصرف					
مصرف ليبيا المركزي ينبغي أن يلعب دورا رئيسيا في تنظيم و مراقبة الإفصاح المالي في المصارف					
مصرف ليبيا المركزي ينبغي أن يلعب دورا رئيسيا في مراقبة تنفيذ القوانين والأنظمة ضمن القطاع المصرفي في ليبيا					
معايير المحاسبة الدولية ينبغي أن تطبق على القطاع المصرفي من قبل السلطات الليبية					
جميع التقارير السنوية ينبغي أن تعد باستخدام نفس المعايير المحاسبية					
كل التقارير السنوية ينبغي أن تقدم باستخدام شكل موحد					
المراجعون الخارجيين للبنوك الليبية ينبغي أن يكونوا مستقلين عن تأثير الإدارة					
المهارات المهنية لمعدي القوائم المالية بحاجة إلى تحسين.					

17. يرجي استخدام الحيز أدناه لإبداء أي تعليقات عن الإفصاح المالي في التقارير السنوية للمصارف الليبية

....
....
....
....
....

في نهاية الاستبيان أود أن انتهز هده الفرصة لأعبر لكم عن شكري و تقديري للجهد الذي بذلتموه لملء هذ ا الاستبيان. و من يرغب منكم في استلام ملخص من نتائج هذ ا البحث الرجاء كتابة الاسم وبقية المعلومات أدناه.

الاسم..
العنوان:...
عنوان البريد الالكتروني:...
رقم الهاتف:..
رقم الفاكس:..

Appendix 5.3

Mandatory Disclosure Checklist of Information Items

Mandatory Disclosure items	
General information	
1	Bank's name
2	The legal form of the bank
Balance sheet items	
3	Required amounts from the shareholders have not yet paid
4	Fixed assets
5	Intangible assets
6	Assets and liabilities should not be offset
7	Cash and securities in the fund
8	Cash at the Central Bank
9	Cash at other banks
10	Treasury bills
11	Government treasury bonds
12	Securities
13	Investments
14	Percentage or number of shares purchased
15	Deposits with the Central Bank
16	Deposit with other banks
17	Deposit with other financial institutions
18	Loans and advances to other banks
19	Loans and advances to customers
20	Debt required of companies linked to
21	Various debit accounts (general)
22	Amounts of nominal capital
23	Ordinary shares should be separated from other kind of shares
24	Legal reserve
25	The general reserve
26	Provision reserves
27	Accumulated depreciation on fixed assets
28	Accumulated depreciation should be put down in the part of liabilities
29	Depreciation should be based on the straight-line method and based on the historical cost of the asset
30	Provision against the risk of falling value of assets
31	Reserved amounts to meet employees leave balances
32	Deposits from other banks
33	Depositors from other financial institutions
34	Customers' deposits
35	Customers' time deposits
36	Saving deposits
37	Other borrowed funds
38	Cash securities
39	Certified cheques
40	The loan bonds issued and that still persist
41	Other accounts payable
The nature and amount of contingencies and commitments arising from off-balance sheet items including those related to:	
42	Direct credit substitutes including general guarantees of indebtedness, bank acceptance guarantees

	and standby letters of credit serving as financial guarantees for loans and securities
43	Short-term self-liquidating trade-related contingent liabilities arising from the movement of goods, such as documentary credits where the underlying shipment is used as security
44	**Account of profits and losses**
45	**Notes to the financial statements**
46	**Director's report**
47	**Auditor's report**

Appendix 5.4

Mandatory Disclosure Checklist of Information Items

Mandatory Disclosure Index	
S/N	**Items**
	General information
1	Bank's name
2	The legal form of the bank
	Balance sheet items
3	Fixed assets
4	Assets and liabilities should not be offset
5	Cash and securities in the fund
6	Cash at the Central Bank
7	Cash at other banks
8	Treasury bills
9	Government treasury bonds
10	Securities
11	Investments
12	Percentage or number of shares purchased
13	Time deposits with the Central Bank
14	Time deposits with other banks
15	Loans and advances to other banks .
16	Loans and advances to customers
17	Various debit accounts (general)
18	Amounts of nominal capital
19	Legal reserve
20	The general reserve
21	Provision reserves
22	Accumulated depreciation on fixed assets
23	Inclusion of accumulated depreciation in liabilities
24	Depreciation based on the straight-line method
25	Provision against the risk of assets values falling
26	Reserve amounts to meet cost of employees leaving balances
27	Deposits from other banks
28	Customers' deposits
29	Customers' time deposits
30	Saving deposits
31	Other borrowed funds
32	Cash securities
33	Certified cheques
34	Other accounts payable
	Contingent accounts and commitments arising from off-balance sheet items
35	Letters of guarantee
36	Documentary credits
37	**Profit and loss account**
38	**Notes to the financial statements**
39	**Director's report**
40	**Auditor's report**

Appendix 5.5

Overall Financial Disclosure Checklist of Information Items

Overall Financial Disclosure Items	
S/N	**Items**
	General information
1	Bank's name
2	The legal form of the bank
3	Organizational structure
4	Brief description of the nature of the bank's activities
5	Brief history of bank
6	Graphs and photos
	Information about management and the board of directors
7	Names of the members of the board of directors
8	Names and titles of senior executive managers
9	Educational qualifications (Academic and Professional)
10	Commercial experience of the directors
11	Directors' affiliations with other organisations
12	Top management names
	Corporate Strategy
13	Statement of general strategy and objectives
14	Statement of financial strategy and objectives
15	Impact of strategy on current results
16	Impact of strategy on future results
	Projections and budgetary items
17	Bank plans for the following years
18	Plans for future capital expenditures
19	Factors affecting bank's future
20	Qualitative forecast of sales and profits
21	Quantitative forecast of sales and profits
22	Economic factors affecting future business
23	Technological factors affecting future business
	Financial Review (Key financial ratios)
24	Profitability ratios
25	Activity ratios
26	Liquidity ratios
27	Gearing ratios
	Stock Information
28	Size of shareholdings
29	Number of shareholders
30	Names of senior shareholders
31	Type of shareholders
32	Geographic distribution of shareholders
33	Distribution of shareholders by entity type
34	Dividend payout policy
35	Dividends paid or declared
36	The amount of dividends per share
	Income statement Items
37	Group income and expenses by nature

38	The amounts of principal types of income and expenses
39	Income and expenses should not be offset
40	Income from interest and similar income
41	Expenses from interest and similar expenses
42	Breakdown of interest income and interest expense
43	Income from fees for services and commissions
44	Gross profit/loss
45	Expenses from fees for services and commissions
46	Gains less losses arising from dealing in foreign currencies
47	Other income from banking operations
48	General administrative expenses
49	Losses on loans and advances
50	Other expenses from banking operations
51	Net profit from operations before tax
52	Tax expense
53	Net profit/loss
	Balance sheet Items
54	Assets and liabilities grouped according to their nature
55	Assets and liabilities listed in order of their liquidity
56	Fixed assets
57	Assets and liabilities should not be offset
58	Cash
59	Cash at the Central Bank
60	Cash at other banks
61	Treasury bills
62	Investments
63	Percentage or number of shares purchased
64	Government treasury bonds
65	Time deposits with Central Bank
66	Time deposits with other banks
67	Loans and advances to other banks
68	Loans and advances to customers
69	Securities
70	Deposits from other banks
71	Customers' deposits
72	Customers' time deposits
73	Savings deposits
74	Other borrowed funds
75	Accumulated depreciation on fixed assets
76	Inclusion of accumulated depreciation in liabilities
77	Depreciation based on the straight-line method
78	Provisions against the risk of asset values falling
79	Reserve amounts sufficient to meet balances for employees leaving
80	Cash securities
81	Certified cheques
82	Amount of nominal capital
83	Reserve levels
84	Breakdown of reserves into statutory and non-statutory elements
85	Various provisions
86	Retained earnings
	Accounting policies
87	Accounting conventions
88	The recognition of revenue and expenditure

89	The depreciation methods used
90	The depreciation rates used
91	Accounting policies for foreign currency
92	Accounting policies for investments
93	Accounting policies for reserve levels
94	Accounting policies for taxation system
95	Accounting policies for doubtful debts provision
	Contingent accounts and commitments arising from off-balance sheet items
96	Letters of guarantee
97	Documentary credits
	Maturities of assets and liabilities
98	Analysis of assets according to maturity date
99	Analysis of liabilities according to maturity date
100	Grouping of assets and liabilities according to its maturity periods
101	Analysis of assets and liabilities according to the period remaining to its maturity date
102	Analysis of assets and liabilities according to the period remaining to the repayment date
	Losses on loans and advances
103	The accounting policy which describes the basis on which uncollectable loans and advances are recognised as an expense and written off
104	Details of movements in the provision for losses on loans and advances during the period
105	Losses on uncollectable loans and advances recognised as an expense
106	The amount charged in the period for loans and advances is written off
107	The amount credited in the period for loans and advances previously written off that have been recovered
108	The aggregate amount of the provision for losses on loans and advances at the balance sheet date
109	The aggregate amount included in the balance sheet for loans and advances on which interest is not being accrued
110	The basis used to determine the carrying amount of loans and advances on which interest is not being accrued
111	Disclosure of all the losses on loans and advances in detail
	General banking risk
112	Any amount set aside in respect of general banking risks
113	Any amount set aside in respect of future losses or other unforeseeable risks
114	Disclosure of all the amounts set aside separately
115	Any set aside amount should be disclosed as appropriations of retained earnings
116	Any amounts set aside in respect of contingencies and events occurring after the balance sheet date
	Assets pledged as security
117	The aggregate amount of secured liabilities
118	The nature and carrying amount of the assets pledged as security
	Other statements and supplementary information items
119	Chairman of board's speech
120	Director's report
121	Auditor's report
122	Statement of retained earnings
123	Statement of sources and application of funds or cash flow
124	Statement of changes in owners' equity
125	Notes to the financial statements
126	Comparative financial statements for two years or more

Appendix 6

Appendix 6.1

T	Statement	Preparer-Groups				Overall
		GM	DGM	MAD	AC	
6.2	The Potential Users of Libyan Banks' Annual Reports	Bank shareholders	Management and board of directors	External auditors	Management and board of directors	Management and board of directors
6.3	The Main Purpose of Financial Annual Reports	To assist potential investors with future decisions	To assist potential investors with future decisions	To assist the CBL for monitoring and supervision purposes	To assist the CBL for monitoring and supervision purposes	To assist the CBL for monitoring and supervision purposes
6.4	The Importance of Different Sections of Libyan Banks' Annual Reports	Balance Sheet	Balance Sheet	Income Statement	Balance Sheet	Balance Sheet
6.5	The Influence of Different Participants on Financial Disclosure Practices	Central Bank officers	Board of directors & Central Bank officers	Board of directors	Managers of accounting departments	Board of directors
6.6	The Influence of Certain Factors on Financial Disclosure Practices	Banking Law No. 1 (2005)	Commercial Law	Income Tax Law	Income Tax Law	Banking Law No. 1 (2005)
6.7	The Significance of Problems that May Restrict Use of Libyan Banks' Financial Annual Reports.	Delay in publishing annual reports & Lack of compliance	Delay in publishing annual reports	Delay in publishing annual reports	Lack of reliability of the information	Delay in publishing annual reports
6.8	The Significance of Potential Factors that Might Restrict the Quantity of Financial Disclosure in Libyan Banks' Annual Reports.	Lack of professional or qualified accountants & Weaknesses in accounting practices & Lack of an enforcement mechanism of rules	Lack of an enforcement mechanism of rules	Lack of professional or qualified accountants	Lack of professional or qualified accountants	Lack of professional or qualified accountants

6.10	The Quality and Quantity of the Financial Disclosures in Libyan Banks' Annual Reports	Relevance of the information & Materiality of the information & Understandability of the information	Relevance of the information & Quantity of information	Relevance of the information & Reliability of the information	Relevance of the information	Relevance of the information
6.11	The Quality and Quantity of the Financial Disclosures in Libyan Banks' Annual Reports Relative to Other Sectors	Comparability of the information & Understandability of the information	Quantity of information & Relevance of the information & Understandability of the information	Quantity of information	Comparability of the information	Comparability of the information
6.12	The Importance of the Libyan Stock Market's Role Regarding Financial Disclosures Practices	Ensuring banks publish their accounts in timely fashion	Protecting the interests of investors and other users	Ensuring banks comply with statutory requirements	Ensuring banks comply with statutory requirements	Ensuring banks publish their accounts in timely fashion
6.13	The Potential Effects of Economic Reforms that are Expected on Financial Disclosure Practices	The compliance with regulatory requirements will improve	The reliability of the information will improve	The compliance with regulatory requirements will improve	The quantity of the information will rise	The quantity of the information will rise
6.14	Preparers' Views about Normative Statements Regarding Financial Disclosure Practices	Libyan banks' external auditors should be independent of management influence	The CBL should play a major role in monitoring the implementation of laws and regulations	Libyan banks' external auditors should be independent of management influence	Libyan banks' external auditors should be independent of management influence	Libyan banks' external auditors should be independent of management influence

Appendix 7

Appendix 7.1

Table	Statement	User-Groups						Overall
		INV	BLIO	CBO	TO	EA	ACA	
7.3	The Main Purpose of Annual Reports	To assist managers in running their businesses	To assist managers in running their businesses	To assist the CBL for monitoring and supervision purposes	To assist the CBL for monitoring and supervision purposes & To assist potential investors with future decisions	To assist the CBL for monitoring and supervision purposes & To help existing investors in monitoring their investments	To help existing investors in monitoring their investments	To assist the CBL for monitoring and supervision purposes
7.4	The Primary Sources of Financial Information for User Groups	Annual reports & Communication with bank management	Communication with bank management	Annual reports	Annual reports	Annual reports	Annual reports	Annual reports
7.5	The Quality and Quantity of the Disclosures in Libyan Banks	Relevance of the information	Relevance of the information	Materiality of the information	Understandability of the information	Reliability of the information	Understandability of the information	Relevance of the information
7.6	The Quality and Quantity of the Disclosures Relative to Other Sectors	Relevance of the information	Materiality of the information & Reliability of the information	Reliability of the information & Quantity of the information	Materiality of the information & Quantity of the information	Relevance of the information	Quantity of the information	Relevance of the information
7.7	The Potential Importance of Quality Attributes of Financial Information	Relevance of the information	Understandability of the information	Relevance of the information	Reliability of the information	Reliability of the information & Comparability of the information	Reliability of the information & Relevance of the information	Reliability of the information
7.8	The Significance of Potential Problems for Users of Annual Reports of Libyan Banks	Lack of compliance with accounting standards	Lack of reliability of the information	Lack of reliability of the information	Lack of reliability of the information & Delay in publishing annual reports	Delay in publishing annual reports & Lack of compliance with accounting standards	Delay in publishing annual reports	Lack of reliability of the information
7.9	The Importance of Different Sections of Annual Reports	Balance Sheet & Statement of Cash Flows	Balance Sheet	Income Statement & Balance Sheet	Income Statement	Income Statement & Auditor's Report	Income Statement & Balance Sheet	Income Statement
7.10	The Understandabilit-y of Different Sections of Annual Reports	Income statement	Income statement	Auditor's Report & Income statement & Directors' Report & Balance Sheet	Auditor's Report & Directors' Report	Auditor's Report	Auditor's Report & Income statement & Balance Sheet	Auditor's Report

7.11	The Reliability of Different Sections of Annual Reports	Auditor's Report	Balance Sheet	Income statement & Balance Sheet	Income statement	Auditor's Report	Auditor's Report & Income statement & Balance Sheet	Auditor's Report
7.12	The Relevance of Different Sections of Annual Reports	Statement of Cash Flow	Notes to the Financial Statements	Income statement & Balance Sheet	Income statement	Auditor's Report	Income statement	Income statement
713	The Comparability of Different Sections of Annual Reports	Income statement	Auditor's Report	Income statement & Balance Sheet	Income statement	Auditor's Report	Income statement & Balance Sheet	Income statement
7.14	The Materiality of Different Sections of Annual Reports	Income statement & Auditor's Report	Balance Sheet	Income statement & Balance Sheet	Income statement	Auditor's Report	Income statement & Balance Sheet	Income statement
7.15	The Importance of the Libyan Stock Market's Role	Ensuring banks comply with statutory requirements	Encouraging Libyan banks to disclose more information	Ensuring banks comply with statutory requirements & Improving the relevance of the information	Encouraging Libyan banks to disclose more information & Improving the relevance of the information	Ensuring banks publish their accounts in timely fashion	Ensuring banks comply with statutory requirements	Ensuring banks comply with statutory requirements
7.16	The Potential Effects of Recent Economic Reforms on Disclosure	Libyan banks' compliance with regulatory requirements will improve	Libyan banks' compliance with regulatory requirements will improve	Libyan banks' compliance with regulatory requirements will improve	Libyan banks' compliance with regulatory requirements will improve	Libyan banks' compliance with regulatory requirements will improve	Libyan banks' compliance with regulatory requirements will improve	Libyan banks' compliance with regulatory requirements will improve
7.17	Users' Perceptions about Normative Statements Regarding Disclosure	Libyan banks' external auditors should be independent of management influence	The CBL should play a major role in monitoring the implementation of laws and regulations	The CBL should play a major role in monitoring the implementation of laws and regulations	Libyan banks' external auditors should be independent of management influence & The professional skills of financial statements' preparers need to be improved	Libyan banks' external auditors should be independent of management influence	Libyan banks' external auditors should be independent of management influence & The professional skills of financial statements' preparers need to be improved	Libyan banks' external auditors should be independent of management influence